Greater China — Week in Review

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Highlights: cost efficiency

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China's equity market advanced ahead of the Chinese New Year holiday, while the RMB rebounded last week as concerns over imminent tariff risks from President Trump eased. However, China's yield curve flattened with short end jumped higher, reflecting disappointment as expectations of a reserve requirement ratio (RRR) cut failed to materialize before the holiday.

All Chinese local governments have concluded their "two sessions," with none setting GDP targets below 5%, signaling that the national growth target for 2025 is likely to remain at around 5% when announced in March.

As we approach the Spring Festival, my social media feed has been dominated by two contrasting narratives. On one hand, articles about bonus cuts across various sectors highlight lingering economic challenges. On the other hand, technological advancements in China, particularly in AI and military development, have sparked widespread excitement.

This month's highlights include China's sixth-generation fighter jet, Xiaohongshu, and DeepSeek, which have captured global attention. China's industrial foundation, deeply rooted in manufacturing, has long emphasized cost efficiency and low resource consumption, key pillars of the country's rise as a global manufacturing powerhouse. In this context, DeepSeek's cost-efficiency aligns with China's broader development strategy, making its breakthroughs less surprising. That said, after trying 5–6 large language models (LLMs) in recent months, I found DeepSeek quite impressive from user perspective.

In addition to the cost efficiency, these achievements highlight the fruitful returns of China's sustained tech investments, showcasing its ability to remain competitive despite significant challenges, including the property market turmoil and disinflationary pressures. These developments reinforce confidence that China is well-positioned to escape the middle-income trap these two years, even amid sluggish domestic demand.

China's securities regulator unveiled detailed measures aimed at attracting long-term capital into the equity market during its latest press conference last week. Public mutual funds are expected to increase their A-share holdings by at least 10% annually over the next three years, bolstering equity market development. In the insurance sector, large state-owned insurers plan to allocate 30% of new annual premiums to A-share investments beginning this year. Furthermore, the second phase of long-term insurance equity investments will see 100 billion yuan deployed, with 50 billion yuan approved for stock market investments ahead of the Spring Festival.

In December, China's public fiscal revenue surged by 24.25% YoY, continuing its sharp acceleration following November's notable uptick. The growth was driven primarily by non-tax revenue, which soared 93.8% YoY. For the full year 2024, non-tax revenue totaled 4.47 trillion yuan, reflecting a 25.4% YoY increase. This remarkable spike can be attributed to two main factors: specialized profit remittances from central units and local governments' efforts to monetize resources and assets through diversified channels.

Labour market in Hong Kong still leaned toward the tight side, with the seasonally adjusted unemployment rate and underemployment rate staying unchanged for the second consecutive period, at 3.1% and 1.1% respectively in October- December 2024.

Prices pressure remained very gentle, with the headline and underlying inflation steady at 1.4% YoY and 1.2% YoY respectively in December 2024. In 2024 as a whole, composite CPI rose by an average 1.7% YoY (2023: 2.1% YoY), matching our forecast, while underlying CPI rose by a milder 1.1% YoY.

The residential property price index reverted back to the declining trend, falling by 0.7% MoM in December, after a solid rebound of 1.0% MoM in October and staying flat in November. Meanwhile, rental index rebounded by 0.4% MoM in December (-0.4% MoM in November). In 2024 as a whole, the housing price fell cumulatively by 7.1%, in line with our estimate of 7.5%, whereas the rental index rose cumulatively by 3.9%.

The narrowing of buy-rent gap, further cut in prime rate, together with increase in non-local demand, will likely lend some support to the housing market. We now expect the price index to stay flat in 2025, with decline in the first half of the year and rebound in the later half of the year.

Key Development	
Facts	**OCBC Opinions**
▪ China's securities regulator unveiled detailed measures aimed at attracting long-term capital into the equity market during its latest press conference.	▪ Key initiatives include reducing the weight of annual performance indicators for state-owned commercial insurance companies, shifting the focus toward long-term growth objectives. For the National Social Security Fund, a five-year evaluation framework will be introduced to better align its investment strategies with sustainable, long-term goals. ▪ In addition, public mutual funds are expected to increase their A-share holdings by at least 10% annually over the next three years, bolstering equity market development. In the insurance sector, large state-owned insurers plan to allocate 30% of new annual premiums to A-share investments beginning this year. Furthermore, the second phase of long-term insurance equity investments will see 100 billion yuan deployed, with 50 billion yuan approved for stock market investments ahead of the Spring Festival. ▪ These measures are expected to inject fresh capital into China's equity market, strengthening its foundation and supporting the government's broader objectives of fostering a stable and resilient financial market ecosystem.

Key Economic News	
Facts	**OCBC Opinions**
▪ In December, China's public fiscal revenue surged by 24.25% YoY, continuing its sharp acceleration following November's notable uptick. The growth was driven primarily by non-tax revenue, which soared 93.8% YoY, even as tax revenue growth moderated slightly compared to the prior month.	▪ For the full year 2024, non-tax revenue totaled 4.47 trillion yuan, reflecting a 25.4% YoY increase. This remarkable spike can be attributed to two main factors: specialized profit remittances from central units and local governments' efforts to monetize resources and assets through diversified channels, contributing approximately 24 percentage points to the annual growth. Meanwhile, revenues from penalties and fines grew 14.8% YoY in 2024, but this growth slowed significantly over the year—from 25.2% in H1 to -4.4% in Q4. This suggests that the Q4 surge in non-tax revenue primarily stemmed from profit remittances by central and state-owned enterprises, rather than increased fees or penalties at the local government level. ▪ Nationwide government fund revenue experienced a smaller decline of -12.2% YoY, supported by improved land transaction activity, while government fund expenditure achieved a modest rebound of 0.2% YoY, breaking a 22-month streak of negative growth.
▪ Hong Kong: Labour market still leaned toward the tight side, with the seasonally adjusted unemployment rate and underemployment rate staying unchanged for the second consecutive period, at 3.1% and 1.1% respectively in October-December 2024.	▪ Compared to September-November period, Hong Kong's unemployed person declined by 5.1% (or 6.1k) in October-December, while total labour force grew by 0.02% (or 0.9k). Breaking down, unemployment rates in most of the sectors fell by 0.1-0.2 percentage point, with the exception of public administration-related sectors. ▪ Looking ahead, there are concerns over further weakening of labour market in the retail and trade-related sectors, albeit only mildly, amid persistently weak consumer sentiment and escalating trade tensions between the US and China. Generally speaking, the overall labour market is expected to remain on the tight side.
▪ Hong Kong: Prices pressure remained very gentle, with the headline and underlying	▪ For 2024 as a whole, with the exception of "housing" (+2.1% YoY), most of the components of CPI basket recorded moderated

inflation steady at 1.4% YoY and 1.2% YoY respectively in December 2024. In 2024 as a whole, composite CPI rose by an average 1.7% YoY (2023: 2.1% YoY), matching our forecast, while underlying CPI rose by a milder 1.1% YoY.	increases in price levels. Meanwhile, price levels of “electricity, gas and water” (-0.3% YoY), “clothing and footwear” (-0.5% YoY) and “durable goods” (-1.0% YoY) components (9.24% of CPI basket) turned to mild declines. ▪ More recently, prices of “food” and “housing” (67.7% of CPI basket) were largely steady, rising by an average of 0-0.1% MoM in the past three months, hence keep a lid on overall inflationary pressure. Basic food inflation may remain low for the near term amid mainland’s stagnated price level and strong HKD. ▪ Hong Kong’s 2025 inflation outlook hinged on the strength of domestic demand and external prices pressure. We tip the 2025 inflation forecast at 2.0% on the back of higher rent, services and utilities charges, though we reckon the risk is skewed to the downside.
▪ Hong Kong: The residential property price index reverted back to the declining trend, falling by 0.7% MoM in December, after a solid rebound of 1.0% MoM in October and staying flat in November. Meanwhile, rental index rebounded by 0.4% MoM in December (-0.4% MoM in November). In 2024 as a whole, the housing price fell cumulatively by 7.1%, in line with our estimate of 7.5%, whereas the rental index rose cumulatively by 3.9%。	▪ Analyze by flat size, both 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) edged up by 0.1% MoM in November. As for rental index, mass-market and medium-sized and large-sized properties both fell by 0.1% MoM. ▪ The narrowing of buy-rent gap, further cut in prime rate, together with increase in non-local demand, will likely lend some support to the housing market. We now expect the price index to stay flat in 2025, with decline in the first half of the year and rebound in the later half of the year.

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