Greater China — Week in Review

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Highlights: Awaiting confirmation from the data

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China's stimulus measures have remained a focal point in global headlines, with particular attention on efforts to boost domestic demand. On the international stage, concerns have been raised about the adequacy of these measures. Both U.S. Treasury Secretary Janet Yellen and IMF Chief Economist Pierre-Olivier Gourinchas noted a lack of specific details in China's plans, questioning whether they would be sufficient to stimulate demand and absorb excess production capacity.

Last week in Washington, China's Vice Finance Minister Liao Min emphasized that the country would intensify counter-cyclical adjustments through fiscal policy alongside ongoing monetary stimulus. He expressed confidence in achieving the 2024 GDP growth target of around 5%.

Over the past two weeks, I've had the privilege of engaging with a range of investors, policymakers, and academics across the region during my conferences and trips in Asia. These conversations reveal five core concerns among international investors regarding China's stimulus approach.

First, volatility in China's markets has spiked sharply over the past month, posing a significant risk for macro hedge funds. With U.S. elections on the horizon and global volatility already heightened, taking on additional exposure to volatile Chinese assets may seem less attractive for now.

Second, while China's stimulus resembles a "whatever it takes" approach, some foreign investors are drawing comparisons to the 2008 U.S. financial crisis response under Treasury Secretary Henry Paulson. In that instance, Paulson introduced a $700 billion bailout alongside his assurances, bolstering credibility and restoring investor confidence. China's "whatever it takes" approach, however, feels more episodic, with each new policy step unfolding progressively, leaving investors to speculate on what's next in the policy series.

Third, current priorities appear to favor dealing with local government hidden debt first, followed by the financial system stability, and finally domestic demand. This echoed the concerns from Yellen.

Fourth, the execution of debt swaps—critical for managing hidden local government debt—remains ambiguous, introducing further uncertainty. On positive note, China has confirmed that the next National People's Congress will be held from 4 November to 8 November. More clarity may be unveiled on central government leverage.

Lastly, foreign investors are now more data-driven, requiring concrete evidence of improved fundamentals or large-scale stimulus. Absent clear data, they remain hesitant, awaiting specific figures that demonstrate the effectiveness of China's measures.

On data, despite an improvement in the PMI and stronger-than-expected industrial production data, China's industrial profit growth decelerated further in September. This deceleration reflects three key challenges: price pressures, a slowdown in revenue growth, and rising costs. Nevertheless, there are two bright spots. First, the high-tech manufacturing sector has shown resilience. Second, the accounts receivable collection period improved to 66.3 days, a reduction of 0.5 days compared to the previous month. On October 18, China issued the "Opinions on Addressing the Problem of Arrears Owed to Enterprises," providing a systematic plan to tackle this issue. These policy measures are expected to alleviate the impact of outstanding payments on corporate profitability.

In September, fiscal revenue increased by 2.5% YoY, marking the first positive growth in single-month comparisons this year. This improvement in fiscal revenue supported a rebound in fiscal expenditures, which rose by 5.2% YoY in September. Evaluating both the general and government fund budgets as a measure of broad fiscal revenue and expenditure, broad fiscal revenue in September declined by 1.5% YoY (improving from -12.3% previously), with cumulative revenue down 5.6% YoY from January to September. Meanwhile, broad fiscal expenditure in September grew by 12.6% YoY (up from -8.8% previously).

Overall, the market has shifted from its initial excitement to a more cautious "wait and see" stance, becoming increasingly data-dependent. Watching for next week's National People's Congress meeting from 4 November to 8 November.

According to the latest World Economic Outlook report, the IMF revised upward Hong Kong's 2024 growth forecast by 0.3 percentage points to 3.2% (our in-house forecast at 2.4%), while cutting Macau's forecast by 3.3 percentage points to 10.6% (our in-house forecast at 11.0%). In the first half this year, Hong Kong and Macau's economies grew by 3.0% YoY and 15.7% YoY respectively.

Hong Kong's inflationary pressure stayed mild so far this year. Composite CPI and underlying CPI (netting out the effect of government one-off relief measures) rose by slower paces of 2.2% YoY and 0.9% YoY respectively in September 2024, compared to a higher base a year ago. Breaking down, month-on-month increases in prices were recorded across board in September, except for transport (-1.3% MoM) and alcoholic drinks and tobacco (-0.2% MoM).

Total fund raised by IPOs tripled in the third quarter to HK$42.4 billion, comparing with the sum of HK$13.2 billion in the first half, mostly due to the blockbuster listing of Midea in September (the largest IPO in terms of fund raised in three and a half year).

After three years of dry spell, there were considerable pent-up fundraising and listing demand. The recent re-exuberance of IPO market was example of issuers capturing the window of opportunity, as policy setting turns more favourable and market sentiment improves.

Mainland authority extended the regulatory support for offshore listings of corporates, hence help ease the IPO backlog. On the other hand, risk sentiment also made a turnaround as interest rate receded and China's stimulus measures unveiled. The average securities market turnover surged by 77% MoM in September 2024. But before that, we have already seen stronger investors' interest in late 2Q and early 3Q, judging by the subscription rate, as well as improvement in post-IPO performances.

Listings are expected to grow further in coming quarters, given the solid pipeline. Added to that, the recent successful launch of blockbuster IPOs also help to lift sentiment in the primary market.

Key Developments	
Facts	**OCBC Opinions**
▪ The PBoC announced that it will conduct buy out reverse repo with primary dealers up to one year.	▪ The recent introduction of buy-out reverse repo operations with maturities of up to one year enhances the central bank's liquidity management toolkit. This initiative aims to fill the gap in liquidity tools with intermediate maturities, spanning from 1 month to 1 year in addition to commonly used 7-day open market reverse repo operations and the 1-year Medium-Term Lending Facility (MLF). ▪ With the introduction of buy-out reverse repos, expected to include maturities like 3-month and 6-month terms, the central bank seeks to improve its capacity to smooth liquidity conditions across various time frames within one year. This new tool enhances the precision of liquidity management and better addresses the concentrated MLF maturities in the fourth quarter, helping to ensure adequate liquidity through year-end. ▪ This may also support the upcoming issuance of special bond.
▪ Hong Kong: Total fund raised by IPOs tripled in the third quarter to HK$42.4 billion, comparing with the sum of HK$13.2 billion in the first half, mostly due to the blockbuster listing of Midea in September (the largest IPO in terms of fund raised in three and a half year).	▪ After three years of dry spell, there were considerable pent-up fundraising and listing demand. The recent re-exuberance of IPO market was example of issuers capturing the window of opportunity, as policy setting turns more favourable and market sentiment improves. ▪ Mainland authority extended the regulatory support for offshore listings of corporates, hence help ease the IPO backlog. On the other hand, risk sentiment also made a turnaround as interest rate receded and China's stimulus measures unveiled. The average securities market turnover surged by 77% MoM in September 2024. But before that, we have already seen stronger investors' interest in late 2Q and early 3Q, judging by the subscription rate, as well as improvement in post-IPO performances. ▪ Listings are expected to grow further in coming quarters, given the solid pipeline. Added to that, the recent successful launch of blockbuster IPOs also help to lift sentiment in the primary market.

Key Economic News	
Facts	**OCBC Opinions**
▪ Despite an improvement in the PMI and stronger-than-expected industrial production data, China's industrial profit growth decelerated further in September. ▪ In the first three quarters of 2024, industrial profits fell by 3.5% YoY, a sharper decline compared to the 0.5% increase recorded during the January-August period. In September alone, industrial profits dropped by 27.1% YoY, following a 17.8% YoY decline in August.	▪ This deceleration reflects three key challenges: price pressures, a slowdown in revenue growth, and rising costs. Firstly, producer prices for industrial goods remained weak, with the Producer Price Index (PPI) for September showing further contraction, placing significant pressure on both revenue and profitability. Secondly, revenue growth for large-scale industrial enterprises slowed, with year-to-date growth at 2.1% by the end of September, 0.3 percentage points lower than in the January-August period. Thirdly, the growth in enterprise costs continued to outpace revenue growth, leading to a decline in gross margins and insufficient support for profit recovery. ▪ Despite these challenges, there are two positive aspects in the data. The high-tech manufacturing sector has shown resilience, with profits increasing by 6.3% YoY from January to September, driven by strong production growth. This sector contributed 1.1 percentage points to the overall profit growth of large-scale industrial enterprises. Additionally, the accounts receivable collection period improved to 66.3 days, a reduction of 0.5 days compared to the previous month. On October 18, China issued the "Opinions on Addressing the Problem of Arrears Owed to Enterprises," providing a systematic plan to tackle this issue. These policy measures are expected to alleviate the impact of outstanding payments on corporate profitability.
▪ In September, fiscal revenue increased by 2.5% YoY, marking the first positive growth in single-month comparisons this year. This improvement in fiscal revenue supported a rebound in fiscal expenditures, which rose by 5.2% YoY in September. Cumulatively, from January to September, fiscal expenditures grew by 2% YoY.	▪ Tax revenue remained largely stable, posting a 5.0% YoY decline, while non-tax revenue surged by 25.2% YoY, providing a substantial uplift. The sharp rise in non-tax revenue likely reflects intensified efforts by various levels of government to monetize state-owned resources and assets. ▪ National government fund budget revenue fell by 14.2% YoY, though the contraction in land-use rights transfer revenue eased, showing a narrower decline of 18.8% YoY. Meanwhile, government fund budget expenditures jumped by 34.2% in September, potentially driven by the accelerated deployment of ultra-long-term special bond funds for projects like the "Two New and One Major" initiatives. Overall, multiple indicators showed improvement compared to August. ▪ Evaluating both the general and government fund budgets as a measure of broad fiscal revenue and expenditure, broad fiscal revenue in September declined by 1.5% YoY (improving from -12.3% previously), with cumulative revenue down 5.6% YoY from January to September. Meanwhile, broad fiscal expenditure in September grew by 12.6% YoY (up from -8.8% previously), with a cumulative decline of 0.8% YoY over the first nine months.
▪ Hong Kong: Inflationary pressure stayed mild so far this year. Composite CPI and underlying CPI (netting out the effect of government one-off relief measures) rose by slower paces of 2.2% YoY and 0.9% YoY respectively in September 2024, compared to a higher	▪ Breaking down, month-on-month increases in prices were recorded across board in September, except for transport (-1.3% MoM) and alcoholic drinks and tobacco (-0.2% MoM). ▪ In the first three quarters this year, composite CPI rose by an average 1.9% YoY, while underlying CPI rose by a milder 1.0% YoY. We kept the full year inflation forecast unchanged at 1.9%.

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