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GLOBAL MARKETS RESEARCH

Greater China — Week in Review

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Highlights: After the dust settles

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Last week brought resolution to two major uncertainties for the Chinese market: the outcome of the U.S. election and the scale and direction of fiscal stimulus.

During a press conference by the National People's Congress Standing Committee on 8 November, Finance Minister Lan Fo'an announced a comprehensive 12 trillion yuan debt resolution package.

According to Ministry of Finance estimates, as of the end of 2023, the total hidden debt balance nationwide stood at 14.3 trillion yuan after detailed project reviews and hierarchical reporting. Minister Lan outlined a three-pronged policy approach aimed at reducing the amount of hidden debt to 2.3 trillion yuan by 2028.

The path to resolving the 12 trillion yuan debt includes: first, raising the local government debt ceiling by 6 trillion yuan to swap existing hidden debt over three years (2024-2026) at 2 trillion yuan annually. Second, allocating 800 billion yuan per year for five years through newly issued local government special bonds to supplement government fund resources for debt resolution, cumulatively addressing 4 trillion yuan of hidden debt. Third, extending repayment terms for 2 trillion yuan of hidden debt related to shantytown redevelopment beyond 2028, allowing repayment according to original contract terms starting in 2029.

Within the CNY 12 trillion debt resolution plan, only CNY 6 trillion is regarded as incremental policy in our view, while the remaining CNY 4 trillion reflects a repurposing of existing local government special bonds. However, as noted during the press conference, China plans to increase the issuance size of local government special bonds next year, signaling potential incremental measures, although specific figures have yet to be confirmed.

Overall, the amount announced last Friday aligns largely with expectations but may not meet the demands of all stakeholders. Notably, there will be no issuance of additional central government bonds or adjustments to the deficit ratio for 2024. Additionally, the debt resolution responsibility remains primarily with local governments rather than shifting to the central government. As a result, compared to central government-led leverage increases, the chain of reaction to economic support from the local government-led resolutions may be longer.

The most immediate impact of this debt resolution plan is the reduction in interest expenses. Statutory debt carries significantly lower interest rates than hidden debt, leading to substantial savings for local governments. The Ministry of Finance projects approximately 600 billion yuan in savings over the next five years. Minister Lan also highlighted that this policy would alleviate debt

repayment pressures, creating room for fiscal expenditures aimed at stimulating demand.

The extent to which the NPC announcement will boost risk sentiment depends on how investors interpret the incremental policies and the subsequent chain reaction. Nonetheless, the announcement is expected to help reduce perceived tail risks for China, which could positively influence not only Chinese assets but also global assets sensitive to developments in China.

The National People's Congress press conference focused solely on debt resolution, signaling that this is likely the first step in a broader fiscal stimulus strategy. Over the next six months, additional policies are expected, including special sovereign bonds to reinforce state-owned banks' capital, special bonds for land reserves, and potential adjustments to the deficit ratio. Attention will now turn to the Central Economic Work Conference in December and the Two Sessions next year for further developments.

We think the recent meeting confirmed China's "whatever it takes" approach, however, it is not the last episode. There will be more episodes unfolding progressively in the next half year, leaving investors to speculate on what's next in the policy series.

With the imminent issuance of an additional CNY 2 trillion in local government bonds in the next two months, combined with the substantial volume of maturing Medium-Term Lending Facilities (MLFs), we anticipate that the People's Bank of China (PBoC) will implement another reserve requirement ratio (RRR) cut in November or December.

Following Trump's victory, the offshore Chinese Yuan weakened by about 1%, while the Hang Seng Index declined by over 2% during the day. The correction in Chinese assets aligned with market expectations amid concerns over renewed tariff threats from a "Trump 2.0" administration.

What might Trump 2.0 mean for China? To better understand the potential implications, **I recommend the book *No Trade Is Free*, published in 2023 by Robert Lighthizer,** Trump's former trade negotiator. Although I have yet to complete the book, it serves as a significant reference for comprehending Trump's trade policy framework.

From Lighthizer's insights, China faces two primary risks under a potential Trump 2.0 administration. The first is the potential revocation of its Most Favored Nation (MFN) status, which could raise average U.S. tariffs on Chinese imports to approximately 40%. The second is the possibility of an additional 20%-60% tariff on Chinese goods. However, unlike the president's unilateral power to impose tariffs, removing MFN status requires Congressional approval, meaning its implementation would depend on the political landscape in Congress.

The main legal provisions for U.S. tariff imposition include Sections 201, 232, and 301. Sections 201 and 232 generally target specific goods, while Section 301 addresses broader actions against countries, as seen during the U.S.-China trade war in 2018. Future tariffs under a Trump 2.0 administration are likely to rely on Section 301. Based on the 2018-2019 trade war timeline, it took about 11 months from the start of a Section 301 investigation to the initial tariffs. Even

with an expedited approach, new tariffs would likely require at least 6 months, potentially impacting trade by the second half of 2025 if Trump assumes office in January.

To estimate the direct impact of potential tariff increases on China's exports to the U.S., export elasticity with respect to tariffs provides a helpful measure. Studies from the first trade war estimate China's export elasticity to tariffs at approximately -1.7 to -2.5, indicating that for every 1% increase in tariffs, China's exports to the U.S. could decline by 1.7% to 2.5%. If this elasticity holds, an MFN revocation could slash China's exports to the U.S. by up to 60%, assuming an additional 30% tariff increase, while an additional 60% tariff could reduce exports to roughly 10% of current levels.

Nonetheless, transshipment, or re-routing through third countries, may offset some of these impacts. Chinese scholars estimate a 40% mitigation effect from the first trade war. Given that the U.S. accounts for around 15% of China's total exports in 2023, the net effect on overall Chinese exports in an extreme scenario could be an approximate 8% decline after transshipment adjustments, translating to a potential around 1% GDP loss for China.

The Hong Kong Monetary Authority cut its base rate by 25bps to 5%, via a pre-determined formula following Fed rate cut. Some major Hong Kong banks cut their Prime rate by 25bps, a magnitude that was bigger than expected, effective on 11 November.

1-month and 3-month HIBORs were last seen at 4.10% and 4.28% respectively. Approaching year-end, Hong Kong dollar liquidity is likely to tighten further. We expect the local bank to pause Prime rate cut in December, before slashing the rate further by 37.5 basis point in early 2025, assuming Fed will proceed to cut at every meeting until the end of 1Q 2025.

Key Developments	
Facts	**OCBC Opinions**
▪ During a press conference by the National People's Congress Standing Committee on 8 November, Finance Minister Lan Fo'an announced a comprehensive 12 trillion yuan debt resolution package.	▪ According to Ministry of Finance estimates, as of the end of 2023, the total hidden debt balance nationwide stood at 14.3 trillion yuan after detailed project reviews and hierarchical reporting. Minister Lan outlined a three-pronged policy approach aimed at reducing the amount of hidden debt to 2.3 trillion yuan by 2028. ▪ The path to resolving the 12 trillion yuan debt includes: first, raising the local government debt ceiling by 6 trillion yuan to swap existing hidden debt over three years (2024-2026) at 2 trillion yuan annually. Second, allocating 800 billion yuan per year for five years through newly issued local government special bonds to supplement government fund resources for debt resolution, cumulatively addressing 4 trillion yuan of hidden debt. Third, extending repayment terms for 2 trillion yuan of hidden debt related to shantytown redevelopment beyond 2028, allowing repayment according to original contract terms starting in 2029. ▪ Within the CNY 12 trillion debt resolution plan, only CNY 6 trillion is regarded as incremental policy in our view, while the remaining CNY 4 trillion reflects a repurposing of existing local government special bonds. However, as noted during the press conference, China plans to increase the issuance size of local government special bonds next year, signaling potential incremental measures, although specific figures have yet to be confirmed. ▪ Overall, the amount announced last Friday aligns largely with expectations but may not meet the demands of all stakeholders. Notably, there will be no issuance of additional central government bonds or adjustments to the deficit ratio for 2024. Additionally, the debt resolution responsibility remains primarily with local governments rather than shifting to the central government. As a result, compared to central government-led leverage increases, the chain of reaction to economic support from the local government-led resolutions may be longer. ▪ The most immediate impact of this debt resolution plan is the reduction in interest expenses. Statutory debt carries significantly lower interest rates than hidden debt, leading to substantial savings for local governments. The Ministry of Finance projects approximately 600 billion yuan in savings over the next five years. Minister Lan also highlighted that this policy would alleviate debt repayment pressures, creating room for fiscal expenditures aimed at stimulating demand. ▪ The extent to which the NPC announcement will boost risk sentiment depends on how investors interpret the incremental policies and the subsequent chain reaction. Nonetheless, the announcement is expected to help reduce perceived tail risks for China, which could positively influence not only Chinese assets but also global assets sensitive to developments in China. ▪ The National People's Congress press conference focused solely on debt resolution, signaling that this is likely the first step in a broader fiscal stimulus strategy. Over the next six months, additional policies are expected, including special sovereign bonds to reinforce state-owned banks' capital, special bonds for land reserves, and potential adjustments to the deficit ratio. Attention

	will now turn to the Central Economic Work Conference in December and the Two Sessions next year for further developments. ▪ We think the recent meeting confirmed China's "whatever it takes" approach, however, it is not the last episode. There will be more episodes unfolding progressively in the next half year, leaving investors to speculate on what's next in the policy series. ▪ With the imminent issuance of an additional CNY 2 trillion in local government bonds in the next two months, combined with the substantial volume of maturing Medium-Term Lending Facilities (MLFs), we anticipate that the People's Bank of China (PBoC) will implement another reserve requirement ratio (RRR) cut in November or December.
▪ Following Trump's victory, the offshore Chinese Yuan weakened by about 1%, while the Hang Seng Index declined by over 2% during the day. The correction in Chinese assets aligned with market expectations amid concerns over renewed tariff threats from a "Trump 2.0" administration.	▪ What might Trump 2.0 mean for China? To better understand the potential implications, I recommend the book No Trade Is Free, published in 2023 by Robert Lighthizer, Trump's former trade negotiator. Although I have yet to complete the book, it serves as a significant reference for comprehending Trump's trade policy framework. ▪ From Lighthizer's insights, China faces two primary risks under a potential Trump 2.0 administration. The first is the potential revocation of its Most Favored Nation (MFN) status, which could raise average U.S. tariffs on Chinese imports to approximately 40%. The second is the possibility of an additional 20%-60% tariff on Chinese goods. However, unlike the president's unilateral power to impose tariffs, removing MFN status requires Congressional approval, meaning its implementation would depend on the political landscape in Congress. ▪ The main legal provisions for U.S. tariff imposition include Sections 201, 232, and 301. Sections 201 and 232 generally target specific goods, while Section 301 addresses broader actions against countries, as seen during the U.S.-China trade war in 2018. Future tariffs under a Trump 2.0 administration are likely to rely on Section 301. Based on the 2018-2019 trade war timeline, it took about 11 months from the start of a Section 301 investigation to the initial tariffs. Even with an expedited approach, new tariffs would likely require at least 6 months, potentially impacting trade by the second half of 2025 if Trump assumes office in January. ▪ To estimate the direct impact of potential tariff increases on China's exports to the U.S., export elasticity with respect to tariffs provides a helpful measure. Studies from the first trade war estimate China's export elasticity to tariffs at approximately -1.7 to -2.5, indicating that for every 1% increase in tariffs, China's exports to the U.S. could decline by 1.7% to 2.5%. If this elasticity holds, an MFN revocation could slash China's exports to the U.S. by up to 60%, assuming an additional 30% tariff increase, while an additional 60% tariff could reduce exports to roughly 10% of current levels. ▪ Nonetheless, transshipment, or re-routing through third countries, may offset some of these impacts. Chinese scholars estimate a 40% mitigation effect from the first trade war. Given that the U.S. accounts for around 15% of China's total exports in 2023, the net effect on overall Chinese exports in an extreme scenario could be an approximate 8% decline after transshipment adjustments, translating to a potential around 1% GDP loss for China.

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Key Economic News	
Facts	**OCBC Opinions**
▪ China's CPI moderated to 0.3% YoY in October, down from 0.4% YoY in September.	▪ This moderation was primarily driven by a 1.2% MoM decline in food prices and a 1.5% MoM decrease in energy prices. Non-food prices remained flat in October, keeping core CPI (which excludes food and energy) unchanged on a monthly basis, though the YoY reading for core CPI edged higher to 0.2% from 0.1% YoY in September. ▪ PPI contracted by 0.1% MoM in October, a significant improvement from the 0.6% MoM decline recorded in September. Upstream prices have shown signs of recovery, with domestically priced ferrous building materials rebounding and internationally priced non-ferrous metals experiencing price increases. Meanwhile, the decline in petrochemical product prices has narrowed. However, PPI prices for consumer goods and mid-to-downstream manufacturing remain weak, as companies continue to employ price-for-volume strategies to boost exports. ▪ Overall, the persistently weak price indices suggest that China's nominal GDP growth recovery may continue to face challenges, even though real GDP growth is expected to rebound to over 5% in 4Q 2024.
▪ China's exports grew by 12.7% YoY to US$309 billion in October, surpassing market expectations. This absolute export value also exceeded September's figure, defying the typical seasonal pattern where October exports are usually lower than September's. Imports, on the other hand, fell by 2.3% YoY, resulting in a widened goods trade surplus of US$95.7 billion.	▪ The stronger-than-expected export growth in October was attributed to several factors, including the delayed impact of typhoons, a marginal recovery in external demand, and a low base effect. September's typhoons disrupted shipping and cargo operations in coastal areas, impacting trade. However, when adjusting for these disruptions, combined September and October export growth still posted a robust 7.4%, demonstrating resilience. ▪ Regionally, exports to ASEAN and the EU rose by 15.8% YoY and 12.7% YoY, respectively, while exports to the U.S. rebounded, growing by 8.1% YoY. The broader narrative of a global economic soft landing is likely to support China's export growth through the remainder of the year, although the pace may decelerate in the last two months due to a high base effect. Overall, we anticipate China's exports to grow by 4-5% for the full year, outpacing the WTO's projected global trade growth of 2.6%.
▪ The Hong Kong Monetary Authority cut its base rate by 25bps to 5%, via a pre-determined formula following Fed rate cut. Some major Hong Kong banks cut their Prime rate by 25bps, a magnitude that was bigger than expected, effective on 11 November.	▪ 1-month and 3-month HIBORs were last seen at 4.10% and 4.28% respectively. Approaching year-end, Hong Kong dollar liquidity is likely to tighten further. We expect the local bank to pause Prime rate cut in December, before slashing the rate further by 37.5 basis point in early 2025, assuming Fed will proceed to cut at every meeting until the end of 1Q 2025.

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