

Greater China — Week in Review

14 October 2024

Highlights: Can China transit to a more sustainable “long bull” market?

Just like the unexpected surge in the Chinese stock market before the National Day holiday, the sharp decline last week was equally surprising. Many investors blamed the National Development and Reform Commission (NDRC) press conference, but significant corrections had already begun in the Hong Kong market even before the press conference, as profit-taking after a rapid rise is a common occurrence. However, the NDRC's press conference did exacerbate market volatility.

Although there were indeed incremental policy measures from the NDRC conference, they were not as substantial as expected. The NDRC mentioned plans to front loaded 100 billion yuan from next year's central budget for investment and another 100 billion yuan for "dual emphasis" construction projects by the end of October. This 200 billion yuan increase was easily overlooked during the press conference because, on one hand, the market had been waiting for trillion-yuan figures, making it less sensitive to hundreds of billions. On the other hand, the NDRC missed a few windows to promote this figure well when addressing questions from the journalists.

A post-conference review suggests that the NDRC focused more on achieving this year's growth target. The commission repeatedly emphasized its confidence in reaching the growth goal and introduced a 200 billion yuan incremental policy to ensure that fourth-quarter GDP growth exceeds 5%, thus helping achieve the annual target. But in order to achieve this growth target, we are going back to the old playbook of investment driven. The emphasis on investment as a solution was not what the market wanted to see.

In contrast, the Ministry of Finance's press conference on Saturday, while also not disclosing specific figures, exceeded market expectations in terms of overall support.

While the NDRC press conference disappointed investors by only focusing on achieving the 5% growth target in 2024, the Ministry of Finance press conference signaled that China is getting serious about tackling deflation. This is precisely the message the market has been waiting for.

I have three key takeaways from the press conference which I believe exceeded market expectation. First, there was a clear focus on achieving the 2024 budget targets. Second, four major incremental fiscal stimulus measures, which are already in the decision-making process, were highlighted. Third, it was explicitly stated that there is substantial room for central government borrowing and increasing the fiscal deficit. For details, you may refer to our China Insights report.

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Although the final figures will only be confirmed at the National People's Congress at the end of October and during next year's Two Sessions, the clues provided offer some basis for preliminary estimates.

Overall, the balance of revenues and expenditures, along with the four incremental measures, suggests that government bond issuance will likely increase further in the fourth quarter. The additional issuance could reach as high as 3 trillion yuan in the near term. The overall fiscal stimulus could reach 10 trillion yuan spreading over next few years given this is the strongest debt restructuring measure introduced in recent years.

Given that government bonds are predominantly purchased by banks, the next step will likely involve significant liquidity support for the banking sector. This also aligns with the People's Bank of China's (PBoC) September 24 announcement, which hinted at the possibility of another reserve requirement ratio (RRR) cut of 0.25 to 0.5 percentage points within this year, depending on market liquidity conditions. We expect another 50bps RRR cut in Q4.

The next key event to watch is the National People's Congress meeting in late October, where the approval of additional debt issuance may take place. Between late October and the Two Sessions in March 2025, China is likely to progressively unveil more measures.

Volatility has been the name of game for Hong Kong's stock market last week, and the high volatility environment is likely to persist into this week. HSI plummeted by around 12.6% from the closing price on Monday to the weekly low, before signs of stabilization later.

Beijing hinted at more preferential policies for Hong Kong and Macaus down the road, such as raising the duty-free shopping allowance and increasing the list of mainland cities eligible for individual travel schemes, as the Hong Kong and Macau Affairs Office of the State Council announced that it will continue to introduce more policies and measure.

Former judge, Sam Hou Fai was elected as the chief executive designate of Macao Special Administrative Region on Sunday. He will take office in December, taking over Ho Iat-seng who had been in office since 2019.

Key Economic News	
Facts	OCBC Opinions
<ul style="list-style-type: none"> China's Consumer Price Index (CPI) moderated further to 0.4% year-on-year in September, while the contraction in the Producer Price Index (PPI) widened unexpectedly to -2.8% from -1.8%. 	<ul style="list-style-type: none"> Although food prices remained the primary driver of CPI, softer travel costs and declining property rental prices weighed down the index. The year-on-year increase in service prices declined for the fourth consecutive month, with a notable drop in tourism prices, which fell by 2.1% after a 0.9% rise the previous month. The end of the summer holiday season led to reduced travel demand, contributing to expanded price declines for airfare and hotel accommodations. Additionally, the housing component slipped from flat in the prior month to -0.1% year-on-year, reflecting the ongoing adjustment in the real estate market, which also weighed heavily on CPI performance. China's core CPI fell to a three-and-a-half-year low of 0.1% year-on-year, signaling persistently weak domestic demand. The good news is that the Ministry of Finance press conference signaled that China is getting serious about tackling deflation. This is precisely the message the market has been waiting for.

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