Greater China — Week in Review

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Highlights: China flexed its muscles

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The latest data showed that the transmission mechanism from resilient external demand to domestic demand remains weak.

China's export growth in dollar terms accelerated to 8.6% year-on-year (YoY) in June from 7.6% YoY in May, while imports in dollar terms contracted by 2.3% YoY in June. As a result, China's goods trade surplus hit a record high of $99 billion in June.

The strong demand from the US and EU during a relatively low season, as well as strong demand for electronic products, indicated that China's exports might be supported by front-loading activities due to concerns about increasing tariffs ahead of the US election. Overall, the potential front-loading activities may keep China's exports supported in the third quarter. External demand is expected to support China's growth.

However, the domestic demand remains a drag. China's consumer price index (CPI) growth decelerated to 0.2% YoY in June from 0.3% YoY in May. Looking ahead, China's CPI is likely to hover between 0-0.5% in the coming months. The delay in the CPI rebound underscores the increasing urgency for more decisive policy support from China to avoid entrenched disinflation expectations.

China's aggregate social financing increased by 3.3 trillion yuan in June, down by 928.3 billion yuan compared to the same period last year. Among these, medium to long-term loans to the corporate sector totaled 970 billion yuan, a decrease of 623.3 billion yuan year-on-year, indicating weak real demand. Additionally, financing demand in the household sector remained weak.

However, the pace of fiscal expansion accelerated in June. Government bond financing increased by 848.7 billion yuan, up by 311.6 billion yuan year-on-year. Fiscal spending also accelerated, reducing fiscal deposits by 819.3 billion yuan.

On money supply, both M1 and M2 growth decelerated further to -5% and 6.2%, respectively, hitting historical lows since records began. The "M1-M2 growth rate gap" was 11.2%, remaining at its lowest level in nearly a decade, indicating constrained vitality in the domestic economy.

Elsewhere, in the first half of 2024, the total increase in household deposits reached 9.3 trillion yuan, 2.6 trillion yuan less than the same period last year. The year-on-year decrease in excess savings growth has not yet translated into increased consumption. This may be related to households deleveraging by repaying loans early and shifting deposits to wealth management products.

China’s policy makers flexed their muscles last week to guard against the market volatility. On liquidity, the People's Bank of China (PBOC) announced that effective from 8 July, it would conduct temporary repo and reverse repo operations in the afternoon session, in addition to the regular morning open market operations (OMO).

The recent announcements from the PBOC demonstrate that the central bank has enough tools in its policy toolbox to manage market anomalies such as asset shortages or excessive liquidity. In the case of an asset shortage, the central bank can increase the supply of medium- and long-term bonds in the bond market through borrowing and selling bonds to balance supply and demand. Similarly, if there is excessive liquidity, the central bank can use temporary OMO repo transactions to withdraw liquidity, preventing idle funds from being used for speculative activities within the financial system.

On equity, on July 10, the China Securities Regulatory Commission (CSRC) approved China Securities Finance Corporation's application to suspend securities lending transactions, effective from July 11, 2024. China’s equity markets rebounded last week after China took another step to suspend the short selling.

This week, in addition to the release of the second quarter GDP data on Monday, the market will also focus on the contents of the Third Plenum Session. There are three key points to watch:

Firstly, China’s definition of new productive force, focusing on new growth engines, and likely providing more detailed content on innovative and sustainable growth sectors;

Secondly, constructing a unified large market and economic rebalancing, with reforms aimed at achieving urban-rural integration, including household registration (hukou), land, and population system reforms to address the nearly 18 percentage point gap between the urbanization rate of registered residents and that of the permanent population, and addressing the needs of approximately 300 million non-registered permanent residents in cities who still lack fully functional housing;

Lastly, fiscal and taxation reforms to tackle declining macro tax revenues, tight fiscal balances, and rising local government debt risks, including establishing local tax categories and balancing the tax relationship between the central and local governments.

These topics are critical as they address long-term structural changes and immediate fiscal challenges, shaping the future trajectory of China's economic policy and development.

Macau’s housing price fell by a slower pace, at 0.9% MoM in the three-month ending May 2024 (Feb-Apr 2024: -2.0% MoM). On year-to-year basis, the residential property price index dropped further by 12.5%. Comparing with the high in 2018, the housing price fell cumulatively by 18.8%.

Trading activities rebounded to the highest level since early 2023, to 385 cases, following the removal of all cooling measure on property market. We suspect that the sentiment in the local housing market will remain fragile despite more favourable development in the regulatory setting. Buyers generally prefer to stay on sideline before any rate cuts materalise. We now tip the year-on-year decline in housing price at 4-8% for 2024.

Key events	
Facts	**OCBC Opinions**
▪ China took another step to suspend the short selling.	▪ On July 10, the China Securities Regulatory Commission (CSRC) approved China Securities Finance Corporation's application to suspend securities lending transactions, effective from July 11, 2024. Additionally, the stock exchanges raised the minimum margin requirement for securities lending from no less than 80% to 100%, and for private equity funds participating in securities lending, the margin requirement was increased from no less than 100% to 120%. ▪ The CSRC has further strengthened counter-cyclical adjustments. The suspension of securities lending and the tightening of margin requirements aim to respond positively to investor demands and align with market conditions to maintain market stability.
▪ The People's Bank of China (PBOC) announced that effective from 8 July, it would conduct temporary repo and reverse repo operations in the afternoon session, in addition to the regular morning open market operations (OMO).	▪ These temporary operations will be conducted between 16:00 and 16:20, with an overnight maturity. The rates for these overnight temporary operations will be set at the 7-day reverse repo rate minus 20 basis points for repos and plus 50 basis points for reverse repos. ▪ The recent announcements from the PBOC demonstrate that the central bank has enough tools in its policy toolbox to manage market anomalies such as asset shortages or excessive liquidity. In the case of an asset shortage, the central bank can increase the supply of medium- and long-term bonds in the bond market through borrowing and selling bonds to balance supply and demand. Similarly, if there is excessive liquidity, the central bank can use temporary OMO repo transactions to withdraw liquidity, preventing idle funds from being used for speculative activities within the financial system.

Key Economic News	
Facts	**OCBC Opinions**
▪ China's consumer price index (CPI) growth decelerated to 0.2% year-on-year (YoY) in June from 0.3% YoY in May.	▪ On a sequential basis, the CPI fell by 0.2% month-on-month (MoM) due to declines in both food and non-food prices. Despite a sharp increase in pork prices, which rose by 11.4% MoM in June, the seasonal arrival of certain vegetables, fruits, and seafood led to price decreases. Fresh vegetables fell by 7.3%, potatoes by 4.8%, fresh fruits by 3.8%, and shrimp and crab by 2.4%. These reductions contributed to a MoM decrease of approximately 0.25 percentage points in the CPI. In non-food items, despite higher travel costs due to the start of the summer holiday, prices of durable goods such as automobiles, electronic appliances, and furniture fell due to promotions from the 618 shopping festival. Core CPI, excluding food and energy prices, remained unchanged at 0.6% YoY. Looking ahead, China's CPI is likely to hover between 0-0.5% in the coming months. The delay in the CPI rebound underscores the increasing urgency for more decisive policy support from China to avoid entrenched disinflation expectations. ▪ The contraction in the producer price index (PPI) narrowed further to 0.8% YoY in June. However, on a sequential basis, the PPI fell by 0.2% MoM after a brief increase of 0.2% MoM in May. The MoM decline in the PPI highlights two issues: the instability of upstream raw material prices for domestic demand and overcapacity in some equipment manufacturing industries. Looking ahead, China's PPI may still remain in contractionary territory in the coming quarters.
▪ China's export growth in dollar terms accelerated to 8.6% year-on-year (YoY) in June from 7.6% YoY in May, while imports in dollar terms contracted by 2.3% YoY in June. As a result, China's goods trade surplus hit a record high of $99 billion in June.	▪ Exports to the US and EU accelerated to 6.6% and 4.1% YoY, respectively, while exports to China's largest trading partner ASEAN decelerated to 15% from 22.5%. On the product level, the exports of electronic and mechanical products and high-tech products continued to be the main drivers of China's export growth. ▪ The strong demand from the US and EU during a relatively low season, as well as strong demand for electronic products, indicated that China's exports might be supported by front-loading activities due to concerns about increasing tariffs ahead of the US election. ▪ In contrast to still resilient external demand, the contraction of imports indicates weak domestic demand. This shows the broken transmission from strong external demand to domestic demand, as evidenced by a weak propensity to sell foreign currency. ▪ Overall, the potential front-loading activities may keep China's exports supported in the third quarter. External demand is expected to support China's growth.
▪ China's aggregate social financing increased by 3.3 trillion yuan in June, down by 928.3 billion yuan compared to the same period last year. New yuan loans to the corporate sector amounted to 1.63 trillion yuan, a decrease of 650.3 billion yuan year-on-year.	▪ Among these, medium to long-term loans to the corporate sector totaled 970 billion yuan, a decrease of 623.3 billion yuan year-on-year, indicating weak real demand. Additionally, financing demand in the household sector remained weak. The household sector added 570.9 billion yuan in new loans, with short-term loans increasing by 247.1 billion yuan, down by 244.3 billion yuan year-on-year, and medium to long-term loans increasing by 320.2 billion yuan, down by 142.8 billion yuan year-on-year. Although housing market sentiment improved after the introduction of a comprehensive policy package in May, the extent of the recovery remains insufficient. ▪ However, the pace of fiscal expansion accelerated in June. Government bond financing increased by 848.7 billion yuan, up by 311.6 billion yuan year-on-year. Fiscal spending also accelerated,

	reducing fiscal deposits by 819.3 billion yuan. ▪ On money supply, both M1 and M2 growth decelerated further to -5% and 6.2%, respectively, hitting historical lows since records began. The "M1-M2 growth rate gap" was 11.2%, remaining at its lowest level in nearly a decade, indicating constrained vitality in the domestic economy. ▪ Elsewhere, in the first half of 2024, the total increase in household deposits reached 9.3 trillion yuan, 2.6 trillion yuan less than the same period last year. The year-on-year decrease in excess savings growth has not yet translated into increased consumption. This may be related to households deleveraging by repaying loans early and shifting deposits to wealth management products.
▪ Macau's housing price fell by a slower pace, at 0.9% MoM in the three-month ending May 2024 (Feb-Apr 2024: -2.0% MoM). On year-to-year basis, the residential property price index dropped further by 12.5%. Comparing with the high in 2018, the housing price fell cumulatively by 18.8%.	▪ Trading activities rebounded to the highest level since early 2023, to 385 cases, following the removal of all cooling measure on property market. We suspect that the sentiment in the local housing market will remain fragile despite more favourable development in the regulatory setting. Buyers generally prefer to stay on sideline before any rate cuts materalise. We now tip the year-on-year decline in housing price at 4-8% for 2024.

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