Greater China — Week in Review

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Highlights: from discussion to implementation

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It was another roller coaster week for Chinese assets. The equity market began the week with a cautious tone as investors assessed the effectiveness of recent stimulus measures. Volatility spiked again on Thursday during a press conference about property market. However, risk sentiment improved notably on Friday as the policy supports transitioned from the discussion phase to the swift implementation stage.

Last Friday, the People's Bank of China (PBoC) announced the establishment of a 300-billion-yuan stock repurchase and equity increase re-lending facility. Effective immediately, 21 financial institutions can issue loans to eligible listed companies and major shareholders for stock repurchases and equity increases. Additionally, the PBoC officially launched the Securities-Fund-Insurance Swap Facility (SFISF), with 20 securities and fund companies approved to participate. The initial allocation of quota has exceeded 200 billion yuan.

PBoC Governor Pan also reiterated that the central bank may further reduce the RRR by 25-50bps by the end of the year, contingent on market liquidity conditions. On interest rates, commercial banks have already announced reductions in deposit rates, and the Governor suggested that the Loan Prime Rate (LPR), expected to be announced this morning, will likely be lowered by 20-25bps. This advance reduction in deposit rates ahead of loan rate cuts appears aimed at stabilizing bank’s net interest margins.

Additionally, the Governor emphasized the need to enhance the monetary policy framework, with a focus on fostering a reasonable recovery in prices and placing greater reliance on rate-based policy tools. This showed that PBoC may be more serious about tackling deflation.

The Ministry of Housing and Urban-Rural Development (MOHURD) introduced a series of "comprehensive measures" aimed at stabilizing and reversing the downward trend in the real estate market. Two new incremental policies include the revamp of 1 million urban village and dilapidated housing units and an increase in the credit support for “whitelist” projects up to 4 trillion yuan. However, market reactions were mixed, leading to increased volatility in real estate stocks. The 1 million-unit revamp plan appears modest compared to the 6 million-unit target for shantytown redevelopment in 2016, but it represents the largest demand-side stimulus in the recent slate of real estate policies. In the short term, the direction of these policies may be more impactful than their scale, as the monetization of resettlement directly injects liquidity into the demand side. MOHURD also indicated the potential to expand the scale of these redevelopment efforts in the future.

On data, The Chinese economy decelerated to 4.6% year-on-year in real terms in the third quarter of 2024, down from 4.7% in the second quarter. For the first three quarters, the economy grew by 4.8% year-on-year. On a sequential basis, the economy rebounded to 0.9% quarter-on-quarter, up from 0.5% in the second quarter, though this growth remained below the seasonal average.

China's GDP deflator contracted for the sixth consecutive quarter, though the contraction narrowed in the third quarter. As a result, nominal GDP growth stabilized, slightly rebounding from 3.97% year-on-year in the second quarter to 4.04% in the third quarter.

External demand strengthened, with net exports contributing 1.1 percentage points to cumulative GDP growth, up from 0.7 percentage points in the first half of the year. This indicates that in 2024, external demand has accounted for over 20% of China's economic growth.

China's GDP growth slowed in the third quarter, mainly due to weaker performance in July and August. However, September showed signs of stabilization and recovery, with marginal improvements in key economic indicators.

Looking ahead, while external demand's contribution to the economy may have peaked and infrastructure investment faces uncertainties due to the new round of debt restructuring, recent stimulus measures are expected to continue stabilizing domestic demand. The real estate market is likely to experience marginal improvement. With the National Development and Reform Commission already advancing a 200 billion yuan investment plan for the fourth quarter, we expect the economy to return to growth above 5% in Q4, bringing full-year growth closer to the 5% target. Additionally, with the issuance of a new round of special government bonds, we anticipate continued economic support into 2025. As a result, we have revised our global economic growth forecast for 2025 upward from 4.6% to 4.8%.

Last but not least, the resurgence of the "Trump trade" has renewed pressure on the RMB, with USDCNY rising above 7.10. The near-term outlook for the pair will largely depend on broader dollar movements and evolving risk sentiment in China.

Hong Kong's Chief Executive John Lee delivered his third Policy Address on 16 October. The 2024 Policy Address can be interpreted as a continuity of previous policy direction, though with more focus back on "prosperity" instead of "stability". Overall speaking, it attempts to consolidate Hong Kong's existing edges and search for new growth areas, while offering supports to selected sectors facing structural challenges. On livelihood issues, the government planned to phase out the substandard sub-divided units and enhance the housing ladder. For details, you may refer to our Hong Kong Insights report.

The Hong Kong Monetary Authority (HKMA) announced five additional measures, alongside the banking sector, to support small and medium-sized enterprises (SMEs) in terms of financing needs. Specifically, the HKMA announced to cut the countercyclical capital buffer ratio from 1% to 0.5% with immediate effect.

Hong Kong's seasonally adjusted unemployment and underemployment rates stayed flat at 3.0% and 1.2% respectively in July-September 2024. Meanwhile, unemployment rate before seasonal adjustment edged down by 0.1 percentage point to 3.1%, as compared to June-August 2024. Breaking down, unemployment rate in "retail, accommodation and food services" sectors rose further, by 0.1 percentage point, to the highest level since late 2022. Meanwhile, unemployment rates in most of the other sectors fell marginally.

Key Developments	
Facts	**OCBC Opinions**
▪ The Ministry of Housing and Urban-Rural Development (MOHURD) introduced a series of "comprehensive measures" aimed at stabilizing and reversing the downward trend in the real estate market.	▪ Two new incremental policies include the revamp of 1 million urban village and dilapidated housing units and an increase in the credit support for "whitelist" projects up to 4 trillion yuan. However, market reactions were mixed, leading to increased volatility in real estate stocks. The 1 million-unit revamp plan appears modest compared to the 6 million-unit target for shantytown redevelopment in 2016, but it represents the largest demand-side stimulus in the recent slate of real estate policies. In the short term, the direction of these policies may be more impactful than their scale, as the monetization of resettlement directly injects liquidity into the demand side. MOHURD also indicated the potential to expand the scale of these redevelopment efforts in the future.
▪ In his speech on Friday, the PBoC Governor Pan Gongsheng signalled upcoming adjustments to both the reserve requirement ratio (RRR) and interest rates.	▪ Governor Pan reiterated that the central bank may further reduce the RRR by 0.25-0.5 percentage points by the end of the year, contingent on market liquidity conditions. On interest rates, commercial banks have already announced reductions in deposit rates, and the Governor suggested that the Loan Prime Rate (LPR), expected to be announced on October 21, will likely be lowered by 0.2-0.25 percentage points. This advance reduction in deposit rates ahead of loan rate cuts appears aimed at stabilizing bank's net interest margins. ▪ Additionally, the Governor emphasized the need to enhance the monetary policy framework, with a focus on fostering a reasonable recovery in prices and placing greater reliance on rate-based policy tools. As deflation risks grow, market expectations for more accommodative monetary policy have increased.
▪ The Hong Kong Monetary Authority (HKMA) announced five additional measures, alongside the banking sector, to support small and medium-sized enterprises (SMEs) in terms of financing needs.	▪ Acknowledging the difficulties faced by the SMEs amid ongoing structural challenges, the government re-launched the principal moratorium arrangement, a Covid-era special relief measures for SMEs. On that note, the HKMA also announced to cut the countercyclical capital buffer ratio from 1% to 0.5% with immediate effect, among other measures, with the hope to facilitate SMEs' funding needs. ▪ Local banking sector also worked actively with the HKMA to aid SMEs in securing financing and accessing credit products. Currently, a total of 16 local banks active in SME lending have set aside HK$370 billion of dedicated funds for SMEs in their loan portfolio.
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Key Economic News	
Facts	**OCBC Opinions**
▪ The Chinese economy decelerated to 4.6% year-on-year in real terms in the third quarter of 2024, down from 4.7% in the second quarter. For the first three quarters, the economy grew by 4.8% year-on-year. On a sequential basis, the economy rebounded to 0.9% quarter-on-	▪ China's GDP deflator contracted for the sixth consecutive quarter, though the contraction narrowed in the third quarter. As a result, nominal GDP growth stabilized, slightly rebounding from 3.97% year-on-year in the second quarter to 4.04% in the third quarter. ▪ From an industry perspective, the contribution of the services sector to GDP growth increased over the first three quarters, while the industrial sector's support weakened. In the third quarter, the

quarter, up from 0.5% in the second quarter, though this growth remained below the seasonal average.

secondary sector (industry) recorded 4.6% real GDP growth, a decline of 1 percentage point from the previous quarter. Meanwhile, the tertiary sector (services) grew by 4.8%, up 0.6 percentage points from the second quarter.

- From an expenditure perspective, weaker household consumption was the primary drag on economic growth in the third quarter. The contribution of final consumption to GDP growth in the first three quarters was 2.4 percentage points, down 0.6 percentage points from the first half of the year. In contrast, external demand strengthened, with net exports contributing 1.1 percentage points to cumulative GDP growth, up from 0.7 percentage points in the first half of the year. This indicates that in 2024, external demand has accounted for over 20% of China's economic growth.
- China's GDP growth slowed in the third quarter, mainly due to weaker performance in July and August. However, September showed signs of stabilization and recovery, with marginal improvements in key economic indicators.
- On the domestic demand front, retail sales in September rebounded more than expected, rising 3.2% year-on-year, driven by a recovery in car and furniture sales. Retail sales of goods increased from 1.9% in August to 3.3% in September, with home appliance sales surging 20.5% and automotive sales returning to growth at 0.4%. The equipment upgrade and trade in program played a significant role, with 20.67 million consumers applying and 14.62 million appliances sold, supported by 13.17 billion yuan in subsidies, contributing to total sales of 69.09 billion yuan. Since September, the "trade-in" policy has driven demand across four key sectors—automobiles, home appliances and audiovisual equipment, cultural and office supplies, and furniture—resulting in an estimated additional 1.2% increase of retail sales in these industries.
- Industrial production accelerated in September, with the value-added of large-scale industries increasing by 5.4% year-on-year, supported by an additional working day and stronger external demand. The industrial capacity utilization rate edged up from 74.9% in Q2 to 75.1%, although it remained below the reasonable lower bound of 76%.
- Manufacturing continued to act as an economic stabilizer. Investment in manufacturing grew from 8.0% in August to 9.7% in September, with growth concentrated in downstream sectors.
- Infrastructure investment grew by 4.1% year-on-year in the first nine months, slightly below the 4.4% growth recorded in the January-August period. While local government debt issuance accelerated in Q3, providing some support for infrastructure projects, the expected issuance of special government bonds may not significantly impact infrastructure investment, as the current focus is on debt resolution. Historical data suggests that infrastructure investment often slows during debt restructuring periods.
- Real estate investment contraction eased slightly in September, with the year-to-date decline narrowing to 10.1% from 10.2% in August. The implementation of supportive policies, such as the "whitelist" financing mechanism for real estate projects, is expected to help stabilize real estate investment in Q4. Recent high-frequency data indicates a rebound in property sales since

	mid-October. ▪ Looking ahead, while external demand's contribution to the economy may have peaked and infrastructure investment faces uncertainties due to the new round of debt restructuring, recent stimulus measures are expected to continue stabilizing domestic demand. The real estate market is likely to experience marginal improvement. With the National Development and Reform Commission already advancing a 200 billion yuan investment plan for the fourth quarter, we expect the economy to return to growth above 5% in Q4, bringing full-year growth closer to the 5% target. Additionally, with the issuance of a new round of special government bonds, we anticipate continued economic support into 2025. As a result, we have revised our global economic growth forecast for 2025 upward from 4.6% to 4.8%.
▪ Hong Kong: The seasonally adjusted unemployment and underemployment rates stayed flat at 3.0% and 1.2% respectively in July-September 2024. Meanwhile, unemployment rate before seasonal adjustment edged down by 0.1 percentage point to 3.1%, as compared to June-August 2024.	▪ Labour market generally stayed tight during the period, as unemployed persons fell fell by 2.4k, more than that of total labour force (-0.7k). Breaking down, unemployment rate in "retail, accommodation and food services" sectors rose further, by 0.1 percentage point, to the highest level since late 2022. Meanwhile, unemployment rates in most of the other sectors fell marginally. ▪ We expect to see further weakening of job market in the retail related sectors further down the road, albeit only mildly. Yet the overall picture still points to a tight labour market.

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