# Greater China — Week in Review

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## Highlights: further decline of government bond yields

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China's government bond yields continued to decline last week, with the curve bull flattening. The 10-year Treasury yield touched a multi-decade low of 2.02%, while the 30-year ultra-long Treasury yield fell to 2.2%, dropping below Japan's 30-year Treasury yield for the first time.

The rally in Chinese government bonds was driven by three main factors: expectations of a RRR cut, supportive liquidity condition and still weak economic fundamentals. The People's Bank of China (PBoC) stepped up its outright reverse repo operations in November, injecting a net CNY800 billion into the financial system—CNY300 billion more than October's operations. Additionally, the central bank net purchased CNY200 billion in bonds, consistent with October's purchases.

These factors outweighed concerns stemming from the potential supply risks associated with higher government bond issuance.

The resistance for further downside may increase due to higher government bond issuance and upcoming major meetings. The December Politburo meeting and the Central Economic Work Conference could see the announcement of additional stimulus measures, which may alter market dynamics and reduce the scope for further declines in yields.

In terms of data, China's industrial profit remained weak. From January to October, the profit growth rate of industrial enterprises declined further to -4.3% YoY, down from -3.5% YoY in the first nine months of the year. However, the single-month decline narrowed sharply, improving from -27% YoY in September to -10% YoY in October.

Sentiment, however, improved. The manufacturing PMI rose to 50.3 from 50.1, driven by improvements in both external and domestic demand.

There are two bright spots. Firstly, Smaller companies saw the most significant gains in November. PMI for medium-sized companies rose to 50.0 from 49.4, while small-sized companies improved to 49.1 from 47.5. In contrast, large-sized companies saw a slight decline, with their PMI falling to 50.9 from 51.5. Secondly, the business expectation index jumped significantly, reaching 54.7 from 54.0, indicating improved confidence among manufacturers about future conditions.

Despite the improvement in sentiment, pricing pressures persisted. Both major raw material purchase prices and factory gate prices fell into contraction territory, with their respective indices dropping 3.6 and 2.2 percentage points MoM to 49.8 and 47.7. This shows the ongoing pressure on the profitability for upstream sectors.

Construction PMI fell to 49.7, slipping below 50 for the first time since early 2020 during the onset of COVID-19. The slowdown in construction was partially driven by cold weather, though it also underscores weak infrastructure investment despite the rise in government bond issuance. Furthermore, the stabilization in property transactions has yet to translate into increased property construction activity.

"Multiple-entry" Individual Visit Scheme was resumed staring from December 2024, instead of the previous one-trip-per-week limit. Under this scheme, Shenzhen residents can have unlimited entries into Hong Kong within a year. Tourism-related sectors, which were hit by the weak consumption sentiment, are expected to benefit from the new visa arrangement.

Growth of merchandise exports in Hong Kong slowed further to 3.5% YoY, while that of imports paced up to 4.5% YoY in October (4.7% YoY and 1.4% YoY respectively in September). During the period, trade deficit dropped to HK$31.0 billion, from that of HK$53.2 billion in September. There are early signs of front-loading of China's exports under Trump's tariff threat. Yet, Hong Kong's trade performance is expected to weaken further going into late 2024 and early 2025, partly due to the high base effect.

Housing market in Hong Kong showed tentative signs of stabilization, as wider sentiment was buoyed by a slew of positive catalysts. The residential property price index rebounded by 0.6% MoM in October, snapping the five-month downtrend, following the 25bp prime rate cut, China's step-up stimulus measures and sharp stock market rally in September. Rental index, however, declined for the first time in seven months, by 0.3% MoM.

While we expect to see some stabilisation in the housing market down the road, there is little reason to believe the rebound in housing prices have legs in the near term, as risk sentiment took a south turn again in later part of October. Added to that, the uncertainties surrounding new US administration could dent the investment sentiment further.

As the Golden week holiday passed, Macau's gross gaming revenue dropped by 11.3% MoM (14.9% YoY), from the highest tally in more than four years in October, to MOP18.44bn in November. In the first eleven months as a whole, the gross gaming revenue rose by 26.8% YoY. Our full year growth forecast for Macau's gross gaming revenue was at 24%.

Separately, starting from January 2025, Zhuhai residents can apply for a new "one-trip-per-week" visa to visit Macau. At the same time, residents possessing household registration and a residence permit for Hengqin can apply for a multiple-entry visa for unlimited travel (seven days of maximum stay period for each trip) to Macau.

| Key Economic News | |
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| ▪ China's manufacturing sentiment continued to recover in November, with the manufacturing PMI rising to 50.3 from 50.1, driven by improvements in both external and domestic demand. | ▪ New orders rose by 0.8 points to 50.8, emerging as the key driver behind the PMI rebound. Meanwhile, new export orders also increased, climbing to 48.1 from 47.3, though they remain below the neutral 50 threshold. Production activity improved further, with the production sub-index rising to 52.4 from 52.0.<br>▪ There are two bright spots. Firstly, Smaller companies saw the most significant gains in November. PMI for medium-sized companies rose to 50.0 from 49.4, while small-sized companies improved to 49.1 from 47.5. In contrast, large-sized companies saw a slight decline, with their PMI falling to 50.9 from 51.5. Secondly, the business expectation index jumped significantly, reaching 54.7 from 54.0, indicating improved confidence among manufacturers about future conditions.<br>▪ Despite the improvement in sentiment, pricing pressures persisted. Both major raw material purchase prices and factory gate prices fell into contraction territory, with their respective indices dropping 3.6 and 2.2 percentage points MoM to 49.8 and 47.7. This shows the ongoing pressure on the profitability for upstream sectors.<br>▪ The non-manufacturing PMI softened slightly to 50.0 from 50.2, reflecting mixed performance across key sectors. Service PMI remained stable at 50.1, indicating flat growth in the services sector. Construction PMI fell to 49.7, slipping below 50 for the first time since early 2020 during the onset of COVID-19. The slowdown in construction was partially driven by cold weather, though it also underscores weak infrastructure investment despite the rise in government bond issuance. Furthermore, the stabilization in property transactions has yet to translate into increased property construction activity. |
| ▪ From January to October, the profit growth rate of industrial enterprises declined further to -4.3% YoY, down from -3.5% YoY in the first nine months of the year. However, the single-month decline narrowed sharply, improving from -27% YoY in September to -10% YoY in October. | ▪ Operating revenue for industrial enterprises fell by 0.2% YoY in October, a marked improvement from the 0.7% YoY decline in the previous month. Reduced operating expenses contributed to a slight recovery in profit margins, which rose by 0.02 percentage points from the prior month to 5.29%.<br>▪ Among 41 industrial sectors, 27 reported improved monthly profit growth compared to September, accounting for over 60% of all sectors. Manufacturing played a pivotal role in narrowing the overall decline in above-scale industrial profits, reducing the drag by 17.8 percentage points from September. Sector-specific improvements were notable, with significant easing of profit pressures in ferrous metal processing, electrical machinery, and non-metallic product industries. Notably, the steel industry achieved profitability for the first time this year.<br>▪ The computer and communications sector's positive contribution to industrial profits expanded significantly, driven by marginal improvements in domestic real estate and infrastructure demand, alongside sustained robust growth in export demand. |
| ▪ Hong Kong: Growth of merchandise exports slowed further to 3.5% YoY, while that of imports paced up to 4.5% YoY in October (4.7% YoY and 1.4% YoY | ▪ Within the total, exports to mainland China slowed for the third consecutive month to 8.6% YoY in October (-1.9% MoM), while that to US reverted to an increase at 5.8% YoY (+16.4% MoM). In the first ten months this year, total merchandise exports and |

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| respectively in September). During the period, trade deficit dropped to HK$31.0 billion, from that of HK$53.2 billion in September. | imports grew by 9.9% YoY and 6.9% YoY respectively.<br>▪ There are early signs of front-loading of China's exports under Trump's tariff threat. Yet, Hong Kong's trade performance is expected to weaken further going into late 2024 and early 2025, partly due to the high base effect. |
| ▪ Hong Kong: Housing market showed tentative signs of stabilization, as wider sentiment was buoyed by a slew of positive catalysts. The residential property price index rebounded by 0.6% MoM in October, snapping the five-month downtrend, following the 25bp prime rate cut, China's step-up stimulus measures and sharp stock market rally in September. Rental index, however, declined for the first time in seven months, by 0.3% MoM. | ▪ In the first ten months this year, the housing price index fell cumulatively by 6.8%, whereas the rental index increased by 4.8%.<br>▪ Analyze by flat size, the mass-market and medium-sized properties (Class A, B and C; below saleable area of 100 square meter) and large-sized properties (Class D and E; saleable area of 100 square meter or above) rebounded by 0.6% MoM and 0.2% MoM respectively in October. As for rental index, mass-market and medium-sized and large-sized properties fell by 0.3% MoM and 0.1% MoM respectively.<br>▪ While we expect to see some stabilisation in the housing market down the road, there is little reason to believe the rebound in housing prices have legs in the near term, as risk sentiment took a south turn again in later part of October. Added to that, the uncertainties surrounding new US administration could dent the investment sentiment further. |
| ▪ Hong Kong: Total retail sales in Hong Kong declined further, albeit at slower pace of 2.9% YoY in value terms in October (Sep: -6.9% YoY). In the first ten months this year, total retail sales fell cumulatively by 7.1% YoY in value terms. | ▪ In sequential basis, total retail sales rose sharply 11.1% MoM in value terms in October. During the month, sales of "consumer durable" (+36.4% MoM), "jewellery, watches and valuable gifts" (+28.0% MoM) and "department stores" (+19.5% MoM) all recorded strong rebound, conceivably due to positive wealth effect created from sharp equity market rally in late September and early October.<br>▪ "Multiple-entry" Individual Visit Scheme was resumed staring from December 2024, instead of the previous one-trip-per-week limit. Under this scheme, Shenzhen residents can have unlimited entries into Hong Kong within a year. Tourism-related sectors, which were hit by the weak consumption sentiment, are expected to benefit from the new visa arrangement. |
| ▪ Macau: As the Golden week holiday passed, Macau's gross gaming revenue dropped by 11.3% MoM (14.9% YoY), from the highest tally in more than four years in October, to MOP18.44bn in November. | ▪ In the first eleven months as a whole, the gross gaming revenue rose by 26.8% YoY. Our full year growth forecast for Macau's gross gaming revenue was at 24%.<br>▪ Separately, starting from January 2025, Zhuhai residents can apply for a new "one-trip-per-week" visa to visit Macau. At the same time, residents possessing household registration and a residence permit for Hengqin can apply for a multiple-entry visa for unlimited travel (seven days of maximum stay period for each trip) to Macau. |

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