Greater China — Week in Review

13 January 2025

Highlights: China's reflation path remains bumpy

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The RMB returned to the spotlight last week following a weak start for China's equity market in 2025. The benchmark CSI300 Index fell by 5.14% in the first seven trading days, marking its worst start to the year in eight years. Persistent U.S. exceptionalism and concerns over the UK and China's financial markets further strengthened the U.S. dollar, adding pressure on the RMB.

For now, RMB stability remains a priority within China's monetary policy framework. To achieve this, authorities have kept the USDCNY daily fixing below 7.19, helping to cap the upside for the spot rate. Simultaneously, China has tightened RMB liquidity in the offshore market through offshore bond issuance.

However, this "buying time" strategy comes at a cost. The widening yield differential between the USD and CNY could encourage more dollar hoarding as investors and corporates seek higher yields. In the medium term, the success of this strategy will hinge on economic fundamentals. A clear reflationary trend and improved growth prospects would provide critical support for the RMB.

As of December 2024, China's Producer Price Index (PPI) has recorded 27 consecutive months of YoY declines, reflecting ongoing disinflationary pressures. The persistent decline is attributable to three key factors: reduced property investment, weak final consumption, and falling oil prices. Looking into 2025, PPI will likely remain under pressure from China's property downturn and may stay in negative territory in the near term.

For consumer prices, with the Chinese New Year holiday falling in January this year, CPI is expected to rebound to around 0.8% YoY in January. However, there remains a significant risk of CPI falling back into negative territory in February. Overall, CPI is likely to remain muted in Q1 2025, though base effects could support a reacceleration in Q2 2025. These trends underscore the urgency for China to reflate its economy through extraordinary counter-cyclical measures.

China's central bank announced a temporary halt to government bond purchases from the market starting in January. According to our rates strategist, when the PBoC first launched its bond purchase and sales program in August, the expectation was that the central bank would focus primarily on selling long-end bonds, reflecting concerns about market participants accumulating excessive duration risks. However, contrary to these expectations, the PBoC engaged in monthly net purchases from August through December. The PBoC's purchases of short-end bonds in previous months should be interpreted primarily as a liquidity measure, addressing specific market needs. At this stage, such intervention appears unnecessary due to excessive demand in the market, justifying the decision to pause further purchases.

China’s Ministry of Finance reiterated a more proactive fiscal policy in 2025 in the latest press conference which will focus on four areas including higher fiscal deficit, more debt issuance, ensure funding for priority expenditure and improving the efficiency of fund allocation.

In 2025, the purpose of local government special bond will be broadened to fund both land reserves and the acquisition of unsold commercial housing for affordable housing projects.

Meanwhile, debt restructuring has progressed effectively. The two trillion yuan in debt-swap bonds slated for 2024 were fully issued by December 18. On average, local governments have reduced debt-servicing costs by more than two percentage points; in some areas, the reduction has exceeded 2.5 percentage points, significantly easing repayment pressure.

Notably, the Ministry of Finance believed the government borrowing is sustainable given the current real interest rates on Chinese government bonds are substantially lower than the country’s real economic growth rate. Furthermore, China’s government debt is backed by abundant high-quality assets with both social and economic benefits.

According to China’s Ministry of Commerce, the trade-in program has delivered significant results. It boosted auto sales by CNY 920 billion, with 2.9 million vehicles scrapped and over 3.7 million replaced. More than 36 million consumers purchased over 56 million household appliances across eight major categories, generating CNY 240 billion in sales. Additionally, kitchen and bathroom renovations spurred the sale of nearly 60 million related products, totaling approximately CNY 120 billion in revenue.

Looking ahead to 2025, China plans to expand the scope of the trade-in program. Support for equipment renewal projects will extend to areas such as electronic information, safety production, and facility agriculture. The trade-in subsidy for household appliances will be increased from the current 8 categories to 12 categories. New purchase subsidies will also be introduced for mobile phones, tablets, smartwatches, and smartbands. Additionally, the subsidy for replacing new energy city buses and power batteries will rise, with the average subsidy per vehicle increasing from CNY 60,000 to CNY 80,000.

Key Development	
Facts	**OCBC Opinions**
▪ According to China's Ministry of Commerce, the trade-in program has delivered significant results. It boosted auto sales by CNY 920 billion, with 2.9 million vehicles scrapped and over 3.7 million replaced. More than 36 million consumers purchased over 56 million household appliances across eight major categories, generating CNY 240 billion in sales. Additionally, kitchen and bathroom renovations spurred the sale of nearly 60 million related products, totaling approximately CNY 120 billion in revenue.	▪ Looking ahead to 2025, China plans to expand the scope of the trade-in program. Support for equipment renewal projects will extend to areas such as electronic information, safety production, and facility agriculture. The trade-in subsidy for household appliances will be increased from the current 8 categories to 12 categories. New purchase subsidies will also be introduced for mobile phones, tablets, smartwatches, and smartbands. Additionally, the subsidy for replacing new energy city buses and power batteries will rise, with the average subsidy per vehicle increasing from CNY 60,000 to CNY 80,000. ▪ The National Development and Reform Commission (NDRC) reiterated its commitment to significantly increasing the use of long-term special bonds for "two new" projects, exceeding the CNY 300 billion allocated in 2024. However, detailed figures will be released during the National People's Congress in March.
▪ China's Ministry of Finance reiterated a more proactive fiscal policy in 2025 in the latest press conference.	▪ The more proactive fiscal policy in 2025 will focus on four areas. First, the government will raise the deficit ratio to expand the space for public spending. Second, it will broaden the overall debt scale by issuing more ultra-long-term special government bonds, with an emphasis on financing key projects and intensifying "two new" policies. This also includes increasing the issuance quota for local government special bonds, expanding the scope of their usage, and allowing them to be used more flexibly as project capital in order to boost effective investment. Third, China will ensure funding for priority expenditures, channeling resources into critical infrastructure and public welfare programs. Fourth, the authorities aim to improve the efficiency of fund allocation by adopting goal-driven and performance-based principles, speeding up the disbursement of funds to ensure timely project implementation, and continuing to enforce austerity measures to prevent wasteful spending. ▪ Beyond these four measures, the Ministry of Finance has announced that two additional policy initiatives are under way. The first will use special bonds to purchase unsold commercial housing and convert it into affordable housing. The second involves issuing special government bonds to support state-owned banks in replenishing their core Tier 1 capital, thereby enhancing their ability to serve the real economy. The relevant banks are currently finalizing their capital-raising strategies, while the Ministry of Finance works to expedite these efforts. ▪ In terms of real estate, local governments may flexibly utilize the 2025 special bond quota to fund both land reserves and the acquisition of unsold commercial housing for affordable housing projects. These measures were introduced toward the end of last year, and their outcomes are expected to materialize progressively throughout 2025. ▪ Meanwhile, debt restructuring has progressed effectively. The two trillion yuan in debt-swap bonds slated for 2024 were fully issued by December 18 of the previous year, and most regions have already used the funds. On average, local governments have reduced debt-servicing costs by more than two percentage points; in some areas, the reduction has exceeded 2.5 percentage points,

	significantly easing repayment pressure. ▪ Overall, the Ministry of Finance remains optimistic about raising the deficit ratio. It notes that China's government debt is backed by abundant high-quality assets with both social and economic benefits. Furthermore, the current real interest rates on Chinese government bonds are substantially lower than the country's real economic growth rate, indicating that government borrowing is sustainable.

Key Economic News	
Facts	**OCBC Opinions**
▪ China's Consumer Price Index (CPI) moderated to 0.1% YoY in December, in line with expectations.	▪ The slowdown was primarily driven by falling food prices, which declined by 0.6% MoM, led by lower vegetable and pork prices, as well as softer energy prices. However, non-food prices rebounded by 0.1% MoM, partially supported by the equipment upgrade and trade-in program. For example, prices for communication tools rose 3% MoM. Core CPI, which excludes food and energy, reaccelerated to 0.4% YoY, up from 0.3% YoY in November. ▪ Looking ahead, with the Chinese New Year holiday falling in January this year, CPI is expected to rebound to around 0.8% YoY in January. However, there remains a significant risk of CPI falling back into negative territory in February. Overall, CPI is likely to remain muted in Q1 2025, though base effects could support a reacceleration in Q2 2025. These trends underscore the urgency for China to reflate its economy through extraordinary counter-cyclical measures. ▪ As of December 2024, the Producer Price Index (PPI) has recorded 27 consecutive months of YoY declines, reflecting ongoing deflationary pressures. The persistent decline is attributable to three key factors: reduced property investment, weak final consumption, and falling oil prices. Looking into 2025, PPI will likely remain under pressure from China's property downturn and may stay in negative territory in the near term.

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