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MACRO MORNING BRIEFING

December 19, 2024

Signs of a Recovery in Chinese Real Estate

- Fiscal and balance sheet expansion to drive economic recovery
- Second month of gains in Tier 1 used home prices
- Positive shift in sentiment toward Chinese equities

The Chinese government has implemented several aggressive market stabilization and support measures over the past few months. The latest statements by the Politburo and China Economic Work Conference (CEWC) point to a decisive shift in the government's stance, with calls for more fiscal spending to boost domestic demand and a willingness to pursue monetary easing. The Politburo changed its monetary policy to "moderately loose" from "prudent," which had been in place since 2011. China also called for a "more proactive" fiscal policy, a step up from the "proactive" fiscal policy it has pursued since 2011. The government emphasized that it will employ "extraordinary" countercyclical adjustment measures to stabilize property and stock markets.

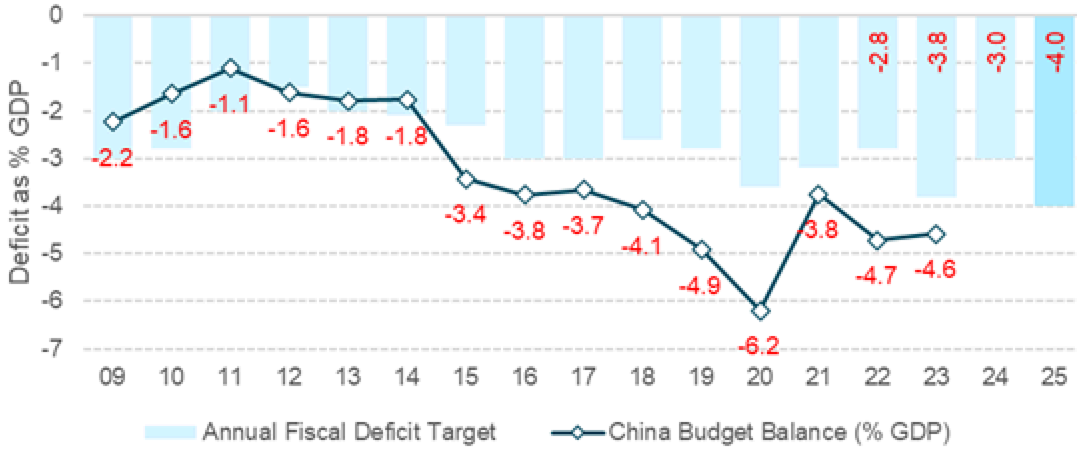
In our view, there is no doubt China will do whatever it takes to stabilize the economy and investor sentiment. The only unknown is the pace of economic recovery from the current trough. So far, the sentiment and confidence data since implementation of the aggressive easing measures in September have been mixed, with selective improvement. China's November PMI survey shifted into expansionary territory, with broad-based recovery of key subcomponents, but construction business activities in the non-manufacturing sector contracted for the first time since data collection began. The latest November credit, activity and investment data remain subdued, but with some encouraging signs of stabilization.

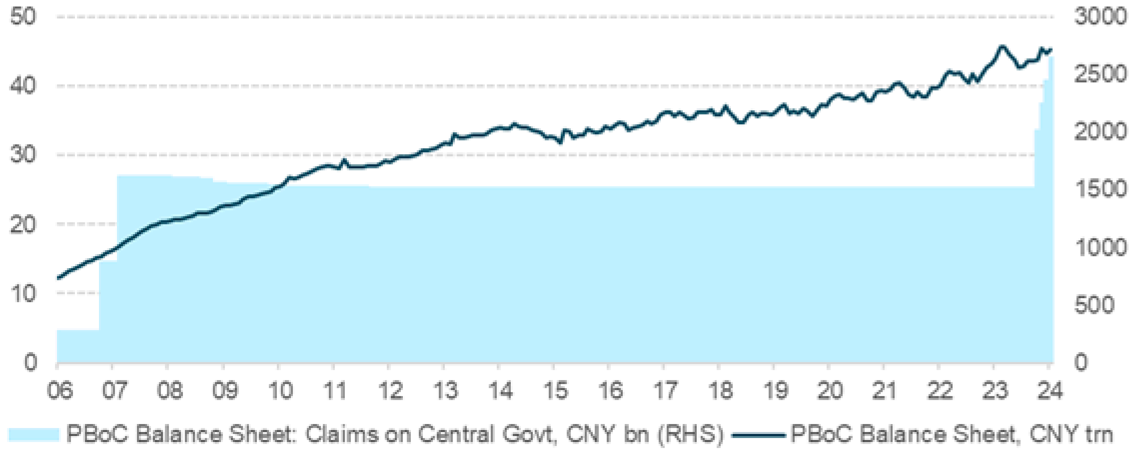
China’s aggregate financing was stable in November at 7.8% y/y, with a healthy trend in corporate bond issuance at CNY 238bn (vs. November 2023: CNY 139bn). Total loans by financial institutions eased to 7.72% y/y, but with improved medium- to long-term household loans, a proxy for mortgage demand, at CNY 300bn, the most since July 2024. As for activity and investment data, fixed asset investments eased in November to 3.3% ytd y/y with infrastructure investments at 4.2% y/y, while industrial production was unchanged at 5.8% ytd y/y, and high-tech manufacturing production accelerated to 9.0% ytd y/y. Retail sales ex-auto slowed to 3.7% ytd y/y, the lowest rate since December 2022 (-0.4% ytd y/y).

We believe that overall domestic conditions in China have stabilized and the lukewarm reception to the stimulus measures might be driven by worsening global factors, including heightened uncertainty about tariffs.

The latest media reports indicate that China will raise its budget deficit to 4% of GDP in 2025, higher than the revised 3.8% in 2023. As for GDP growth, the government is confident that growth will be around 5% and that it will maintain this momentum going into next year. There is also the announced CNY 10trn debt package, in the form of special government bonds. The expectation is that there will be further incremental growth of the People’s Bank of China’s (PBoC) balance sheet, which already saw a spike in central government assets in H2 2024, the first time this has happened since 2007.

Exhibit #1: China Fiscal Deficit and PBoC Balance Sheet





Source: BNY, Bloomberg L.P.

We take a closer look at the housing market trend below. In our view, the issue of housing market inventory is as important as the recovery of house prices, both of which have shown signs of a recovery.

As of November, total real estate inventory stood at 733mn square meters, of which residential buildings accounted for 376mn square meters. It is worth noting the progressive reduction of inventory since the peak in February 2024. The inventory growth rate eased from 24.6% y/y in May 2024 to 18.4% y/y as of November. We are optimistic that the current inventory issue will be addressed adequately in the coming years.

As for house prices, we focus on month-on-month incremental changes to ensure a better reflection of the impact of policy changes. As shown in Exhibit #2, the pace of price drops on average for new and used homes has slowed to -0.2% m/m and -0.35% m/m, respectively, from -0.73% m/m and -0.95% m/m in August 2024, prior to the policy stimulus. The price changes in Tier-1 cities have been encouraging. Tier-1 used home prices posted a second straight month-on-month gain, after 12 monthly declines since October 2023.

We are aware that the housing market issue is far from over and will probably linger for some years to come, but this doesn't mean we should be completely negative. We expect sustained momentum in the reduction of inventory and a progressive improvement in prices

Exhibit #2: Signs of a Recovery in Real Estate

Source: BNY, Bloomberg L.P.

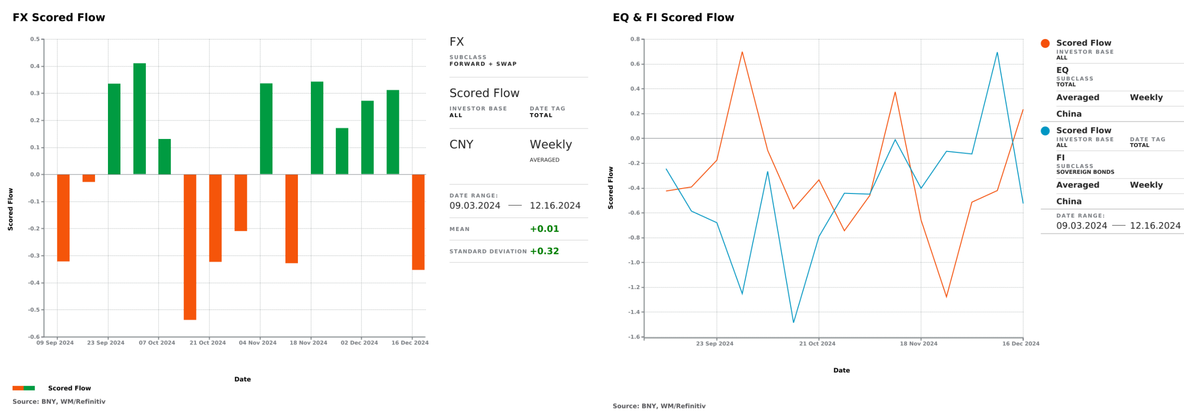
Over the past week, FX flows as per iFlow have been relatively muted with no significant flows. Within APAC, iFlow FX flows have been mixed and light. SGD was the most sold, with a weekly average scored flow of -0.74 against the most inflows in INR at +0.26 in weekly average scored flows. CNY saw outflows for the first time in five weeks.

On an aggregate basis, APAC FX is the most underheld against neutral in G10 and overheld in EMEA and LatAm. There is a wide dispersion of holdings with TWD, PHP and HKD significantly underheld (scored holdings <-1) against significantly overheld (scored holdings >1) in IDR and INR.

The political uncertainty that triggered outflows in Korean won was short-lived. KRW posted inflows last week. KRW remains overheld with stabilized scored holdings.

In terms of other asset classes, Chinese equities posted a rare weekly inflow last week after a long period of outflows. We will be watching closely to see if it marks a shift in sentiment or a one-off event. Equity flows for the rest of the region are biased toward selling. For bonds, Chinese government bonds (CGBs) were sold into strength as the 10yr CGB yield reached a record low of around 1.73%. Indian and Indonesian government bonds posted the most demand last week.

Exhibit #3: Chinese Asset Flows



Source: BNY Mellon Markets, Bloomberg L.P.

Please direct questions or comments to: iFlow@bny.com

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