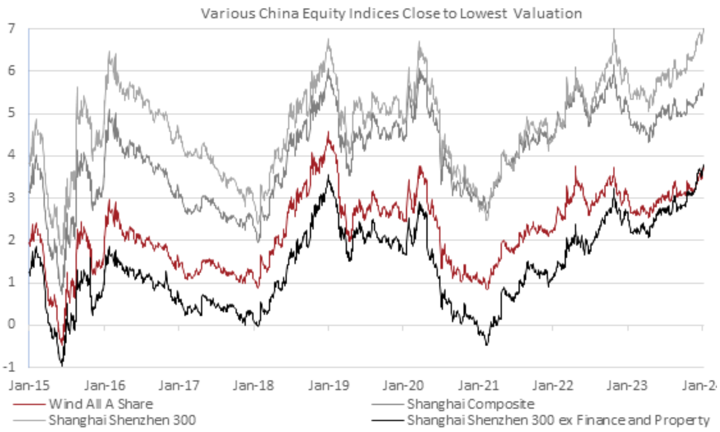
# China Bulletin: Market View




The People's Bank of China (PBoC) is taking a strategic step in shoring up the economy by injecting 350 billion CNY into its Pledged Supplementary Lending (PSL) program. This move is seen as a means to provide favourable funding conditions to policy banks, aiming to spur urban revitalisation and affordable housing construction. In our view, this is an attempt to counteract the headwinds created by the housing downturn and to enhance social welfare. Rather than a knee-jerk reaction to the housing slump, this effort seems to be part of a broader plan to redirect housing demand towards public supply.However, while the housing market's drag is gradually receding and household consumption is showing modest growth, overseas demand for Chinese exports is experiencing cyclical slowdown. As a result, it appears that 2024 may not witness a significant acceleration in Chinese growth, instead it is likely to hover just above the 4% mark, excluding base effects.

In the equity market, a pervasive sense of pessimism prevails, exemplified by the equity risk premium hitting new highs.This phenomenon is striking, considering that listed companies are reporting robust revenue and profit growth. It seems that market participants are fervently seeking certainty and are somewhat neglecting fundamental developments. This lack of confidence can, in part, be attributed to unfamiliarity with structural adjustments and an unfounded belief in the persistence of current challenges. This pessimistic sentiment is causing market participants to swiftly factor in negative signals and overemphasise long-term constraints, including China's ageing population. However, the subdued growth we're witnessing largely represents the cost of reducing reliance on the housing sector and is likely to be transient, although prolonged by the prevailing gloomy sentiment.

As December data rolls in, the consumer price index and export growth are surpassing expectations, while producer prices are falling short, casting a spotlight on the PBoC's upcoming interest rate decisions. Concerns about deflation are resurfacing in the onshore market, with particular attention to rental prices. Lower-skilled workers, benefiting from improved supply-demand dynamics and anticipating decent wage growth, are keeping service inflation afloat, even though their influence in the basket is limited. Monitoring rental prices for both residential and commercial properties, which closely track wage income and business confidence, will be crucial, especially given the inadequacy of China's official data in capturing this facet of the economy.

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