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UOB Investment Insights

Thinking Ahead

12 March 2024

Key takeaways

- China is trying to strike a delicate balance between economic growth and financial system risks, with a focus on national priorities.
- China's ambitious growth target will require meaningful policy support, and the announcement of policy details will be closely monitored ahead.
- Anchor your portfolio with Core investments before considering Tactical investments.

China's focus is steady and sustainable growth, underpinned by national priorities

China's annual week-long National People's Congress (NPC) meeting began on 5 March 2024. Although ambitious economic targets were announced, investors were left disappointed by the lack of policy details. China's focus is on steady and sustainable growth, underpinned by national priorities.

Key takeaways from China's National People's Congress meeting

1. **Growth target of "around 5%"**

- As widely expected, the Chinese government set an ambitious growth target of "around 5%" for 2024. While this signals Beijing's confidence in its economy, some have questioned whether it is achievable given 2023's high base of comparison and the conservative fiscal deficit target of 3% of GDP.
- To achieve the growth target, meaningful policy measures are required to combat deflation, property sector troubles and weak domestic demand.
- **UOB house view** is for China's GDP to likely grow 4.5% in 2024.

2. **More government bonds to fund key priorities**

- The annual quota for local government special bond issuance is slightly higher at CNY 3.9 trillion, allowing provincial governments to fund infrastructure projects and boost local economies.
- China also plans to issue CNY 1 trillion of ultra-long special government bonds this year, the fourth time in 26 years, to finance key national strategies and address funding shortages. While ultra-long bond issuance is expected to continue over the next few years, issuance targets beyond 2024 have not been announced.

  Although fiscal support in 2024 will be higher than last year, it is still seen as insufficient to support the economy and the property market at the same time.

3. **More help for property and private sectors**

- To boost property sector sentiment, Beijing pledged to meet reasonable funding needs of property developers and to treat private and state-backed property companies equally. To avoid further social discontent, it appears the Chinese government will push state banks to increase funding for property developers to deliver uncompleted homes.

- The government also pledged a new development model for real estate including building government-subsidised housing, although no details were provided.
- To support the private sector, Beijing is looking to reduce regulatory red tape and increase loans and debt financing.
- Such policy initiatives are positive for the economy, but the real impact will only be clear when details are released.

4. **Technological innovation and upgrading of industry are national priorities**
   - “New productive forces” has become President Xi Jinping’s key slogan, implying the country’s aim to transform and upgrade traditional sectors using technology.
   - This transformation includes the tourism sector to China’s “new three” growth drivers of electric vehicles, batteries and renewable energy, as well as a commitment to not abandon any traditional industry.
   - Investments in technological transformation ensure national security via economic and technological self-reliance, a key national priority given geopolitical tensions with the US. This will also help strengthen the domestic labour market.
5. **Room to cut interest rates further**
   - People's Bank of China (PBoC) Governor Pan Gongsheng hinted at the possibility of lowering the reserve requirement ratio (RRR) to inject more liquidity into the market if needed.
   - Aggressive rate cuts are however unlikely as the PBoC will want to prevent unnecessary currency volatility and capital outflows.
   - **UOB house view** is the PBoC will cut its 1Y loan prime rate (LPR) by 25 basis point (bps) by the end of 2024. A RRR reduction could happen in 2Q or 3Q 2024 if the economy remains weak.

What you can do

- China is trying to strike a delicate balance between economic growth and financial system risks, with a focus on steady and sustainable growth. Clear policy details are required to boost consumer confidence, support the property market, and lift business and investor confidence.
- Anchor your portfolio with Core investments such as multi-asset strategies that can lower portfolio volatility while capture opportunities in different asset classes, sectors and regions. You can also consider investment grade bonds given attractive bond yields now.
- If you are willing and able to take risk, and are thinking of investing in China, consider doing so through a diversified Asia ex-Japan approach or via selected opportunities such as China tech, electric vehicles, renewable energy and healthcare stocks.
  - Valuation and dividend yield in Asia ex-Japan are attractive, while earnings growth in the region is expected to recover strongly in 2024. Focus on high-quality stocks that pay attractive dividends so that you can also enjoy potential capital gains when interest rates fall globally.
- Speak to a UOB Advisor to build a portfolio that meets your investment goals.

Right By You

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