Hong Kong and China equities retreated yesterday amid mixed macro data, potential sanctions risk and lingering property-market concerns from mainland China. Despite the market drop, our Greater China Equities team believes that the Q4 2023 gross domestic product (GDP) growth trend has already been priced into the index, with some bright spots being neglected. Regarding the property market, significant policy measures introduced since August 2023 have been underappreciated. Heading into 2024, economic stability remains the central government's top priority. The team believes that mainland China's four mega trends (i.e., the *"4As"*) remain intact as better-than-expected inventory destocking and increased policy measures suggest a potential bottoming of the economy.

Hong Kong/Mainland China market update

The Hang Seng Index dropped by 3.7% on 17 January 2024. We attribute the pullback to the following reasons:

1) **Weaker-than-expected Q4 GDP growth data:** Mainland China's Q4 2023 GDP grew by 5.2% year-on-year, slightly missing the expected 5.3% year-on-year expansion.
2) **Mixed macro data:** Mainland China's retail sales growth missed expectations in December. On the other hand, the latest industrial output and fixed-asset investment (FAI) data both reported higher-than-anticipated year-on-year growth, with the former recording the fastest increase in nearly two years.
3) **Potential sanctions risk:** On 12 January 2024, a leading mainland China technology, media and telecom (TMT) company's artificial intelligence (A.I) chatbot was reportedly used by a university affiliated with the mainland Chinese military to test A.I.
4) **Lingering property concerns:** According to National Bureau Statistics, national new home sales volume/value declined by 16%/20% year-on-year in December 2023, while national average selling price (ASP) was down by 5% year-on-year in December 2023.[1]

Our views

- The market has largely priced in the GDP growth trend for Q4 2023. In fact, Q4 GDP growth accelerated from Q3 2023 (+4.9% year-on-year), improving by 1.0% sequentially. Also, full-year GDP growth reached 5.2% year-on-year, slightly above the central government's target of around 5% year-on-year.

- The market neglected some bright spots among December's mixed macroeconomic data. For instance, the Caixin manufacturing Purchasing Managers' Index (PMI) survey hit a better-than-expected 50.8, remaining in expansionary territory for a second consecutive month. Exports expanded by 2.3% year-on-year vs. a 0.5% increase in November. Despite retail sales missing expectations, industrial production gained strength.

- Regarding the property market, the significant policy measures introduced by the central government have been under-appreciated:

[1] National Bureau Statistics of China, Manulife Investment Management, January 2024.

- Starting from August 2023, more property easing policies have been rolled out. The central government cut the nationwide down payment rate for the first time in years on 31 August 2023.
- Since November 2023, there have been obvious signs that the central government is stepping up its support for developers' financing.
- The scope of the relaxations has been broadened to tier-1 cities where the central government had been reluctant to ease policies in past cycles.
- In December 2023, the People's Bank of China (PBOC) resumed its pledged supplemental lending (PSL) facility to inject 350 billion renminbi into the three major policy banks. This marks the third-highest monthly injection in the history of this programme.
- On 16 January 2024, mainland China reportedly considered one trillion renminbi (US$139 billion) of new debt issuance under a special sovereign bond plan[2], only the fourth such sale in the past 26 years, as the authorities intensified their efforts to shore up the economy.
- According to Ministry of Housing and Urban-Rural Development (MOHURD), China's primary and secondary home transactions in total registered positive year-on-year growth for the January to November 2023 period, in contrast to the pessimistic comments in the market. Some early signs of stabilisation in the real estate market are observed.

- For 2024, mainland China has reiterated that economic stability is a top priority.
  - Apart from technological innovation, the Central Economic Work Conference (CEWC) outlined several key areas of focus for mainland China's economic strategy in 2024, including:
    - Boosting domestic demand
    - Reform initiatives
    - High-level opening
    - Financial sector stability

Conclusion

In conclusion, better-than-expected inventory destocking and increased policy measures suggest a potential bottoming of the economy. The Greater China Equities team believes that mainland China's four mega trends (i.e. the ***"4As"***) remain intact going into 2024:

1) Acceleration: Consumption may further improve with mainland China's pro-growth policy stance.
2) Abroad: Leading mainland Chinese companies are going abroad – another growth engine!
3) Advancement: The AI supply chain in Greater China (especially the Taiwan Region) should continue to see robust growth in 2024.
4) Automation: Mainland China's aged population should trigger greater demand for automation.

[2] China Weighs $139 Billion Sovereign Bond Sale to Boost Economy - Bloomberg, 16 January 2024.

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