How our Singapore clients view China’s tariff risk, stimulus plans, and the yuan

We outline some of the observations and takeaways from our roadshows in Singapore

Key Singapore trip takeaways

We were in Singapore last week to meet clients and share some of our key views on the 2025 outlook.

The main topics of discussion with the clients we visited were centred on the impact of potential tariffs on China, as well as the uncertainty surrounding China's policy response; clients agreed that monetary policy easing was relatively easy to continue, but there was more division on the potential for fiscal stimulus.

We also discussed the potential for CNY and Chinese government bonds in 2025. Last week's shift in policy tone at the Politburo meeting and Central Economic Work Conference delivered the key changes that we had flagged on the trip, namely a change of tone on fiscal and monetary policy, as well as a higher priority placed on consumption for next year's economic work tasks.

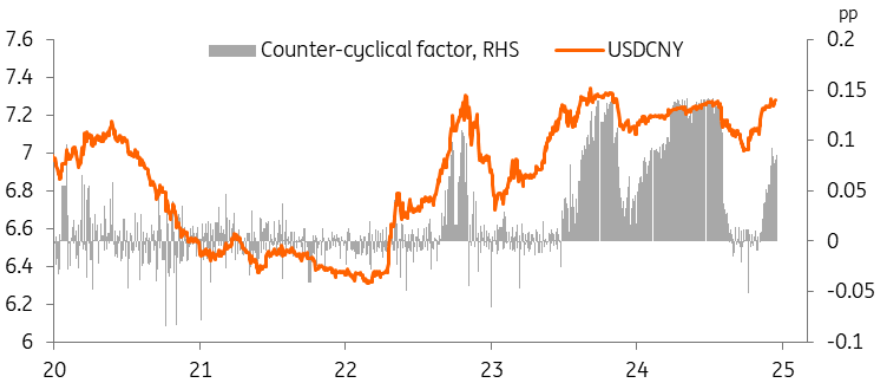
Some of our key takeaways are below:

- Most clients agreed that China can maintain relatively stable growth in 2025, despite a more challenging external environment.

- The mood toward tariffs was quite measured:
  - There was very little pushback on our ING scenario of tariffs coming in phases rather than an abrupt 60% blanket tariff, and consequently most agreed with our view that the immediate post-Trump election views of the impact on China tended to be overblown.
  - Most clients saw very little chance for a second US-China trade conflict to be avoided but generally saw a high probability for various tariff exemptions given a lack of substitute products.
  - Clients generally agreed with our view that China wished to avoid trade conflict but had more room for stronger retaliation this time around.
  - Several clients potentially facing a direct impact from US tariffs or Chinese retaliation were quite concerned compared to financial institutions. While there has been some de-risking since the first trade war, this process is incomplete.
- Clients were divided on the potential for fiscal stimulus rollout in China:
  - Most clients agreed with our view that a sizeable fiscal stimulus push would be needed to substantively impact the current sluggish investment and consumption appetite.
  - Numerous clients expressed doubt that China can implement effective fiscal stimulus, especially to support consumption.
  - Several clients questioned if local governments would be motivated to implement more stimulus even if short-term debt pressures were alleviated.
  - Several clients agreed with our view that September marked a turning point for policy direction.
- Most clients agreed with our view that the People's Bank of China (PBoC) measures were generally well received by markets in 2024, but there was still room for more monetary policy easing.
  - Clients generally agreed there was more room for rate and RRR cuts, and a point of discussion was why the PBoC did not cut rates faster.
  - Several clients expressed a view that the deflation challenge remained significant and risked becoming entrenched, with the "Japanisation" scenario as a potential parallel.
- Many clients compared investor sentiment within China to that abroad and also examined the variations in sentiment across different sectors.
  - Most agreed that the sentiment among "old economy" participants remained heavily downbeat while "new economy" participants were generally more upbeat.
  - Several clients pointed out that sentiment appeared worse in China domestically than among foreign investors.
  - Most agreed that if the stimulus push next year fell short, the impact on sentiment would be very significant.
- Our CNY view of a fluctuation range between 7.00-7.30 in 2024 was probably the one where we received the most pushback this year, and while the scenario has fortunately held up well with a few weeks left in the year, our 2025 bold call for the PBoC to hold the line once again received mixed feedback:
  - Several clients expressed strong agreement with our core views on the CNY, namely the arguments against intentional devaluation and our view on the fluctuation range between 7.00-7.40 with an upside to 7.50 if tariffs come in earlier or more aggressively.
  - Several clients indicated concern about whether the PBoC would be able to ease

    policy but also maintain currency stability, while another client continued to see CNY depreciation as a solution to support the economy. One client noted our CNY view was among the most bullish of foreign banks, and another client mentioned that CNY and HKD parity appeared to be a reasonable expectation.
  - Among the clients who expressed a view on this trip, all indicated they were expecting some level of CNY depreciation next year. While this is a small sample size, it is worth noting that there is always an element of risk when the market is unanimously positioned in one direction.
- Our 2025 CGB story unfortunately played out earlier than expected during our trip, as policymakers gave up on the 2% intervention mark for the 10-year CGB last week, and yields have already slid past our 2025 target.
  - The clients who expressed a view on the topic tended to agree that there were limited sources of risk-free yield for domestic Chinese investors and that unless there was a turnaround in risk appetite, CGBs would still see solid demand with deposit rates likely to fall further in 2025.
  - Several clients agreed with our curve steepening scenario for 2025, with the long-end yields likely buoyed to an extent by increased bond issuance and open market operations, while the short-end is likely to fall along with PBoC easing.

The outcome of our bold 2025 forecast depends on whether the PBoC maintains its defensive stance



Sources: Refinitiv, CEIC, ING

Author

Lynn Song
Chief Economist, Greater China
lynn.song@asia.ing.com