

Three calls for China

China will continue its deleveraging adjustment in 2024, which will keep growth subdued for a time, but may help it avoid potentially larger crises in the future



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1 The property market decline will continue throughout 2024

Weak property sales, weak property prices, weak real estate investment, and by extension, weak fixed asset investment and weak infrastructure spending. This isn't a bold call. This sector of the economy is long overdue for deleveraging, and the government seems to be of the same mind. If the result of this is a slow decline in property prices that brings them more in line with household incomes, then this could be viewed as a necessary market correction and a step in the direction of President Xi's "common prosperity", which has noted that property is for living in, not for speculation. However, this does remove a huge source of demand for large chunks of heavy industry, steel, glass, cement etc, and will prevent GDP from a more rapid recovery.

2 GDP in 2024 will be weaker than 2023

We don't know what 2023 GDP will be yet, though it is looking a safe bet that it will exceed the "around 5%" target that was set at the Two Sessions this year. Our current forecast is 5.4% though this is still subject to change depending on the run of data in the final months of the year. That total, however, is helped a great deal by the very low base effects from 2022, when China was still operating its zero-Covid policy and implementing sporadic lockdowns, as well as some unsettling

abrupt regulatory changes. Underlying this annual slowdown, the quarterly incremental growth of the economy could well start to show some signs of firming, but the arithmetic of the full-year total makes it look unlikely that this year's growth will be exceeded.

3 The PBoC will recommence interest rate cuts

Weak growth and limited options for fiscal expansion given the need to deleverage mean that monetary policy will likely be a source of assistance in 2024. In 2023, the policy repo rate was reduced twice by a mere 10bp. But this came to an abrupt halt when "higher for longer" US rate views resulted in a much stronger US dollar and much weaker Chinese yuan, along with capital outflows that required the People's Bank of China (PBoC) to keep short-term interest rates higher than they would have liked simply to support the CNY and deter CNY selling. With the prospect that the USD is finally softening, and the CNY showing some greater signs of life, we expect the PBoC to recommence rate cuts in 2024. With the policy repo rate already 1.8%, it probably doesn't have too much room to decline, but a further 20bp of easing at least seems a reasonable call.

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