Macro Insights Weekly
China's offset to property market distress

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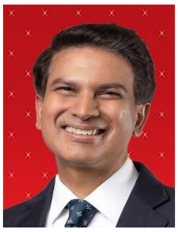


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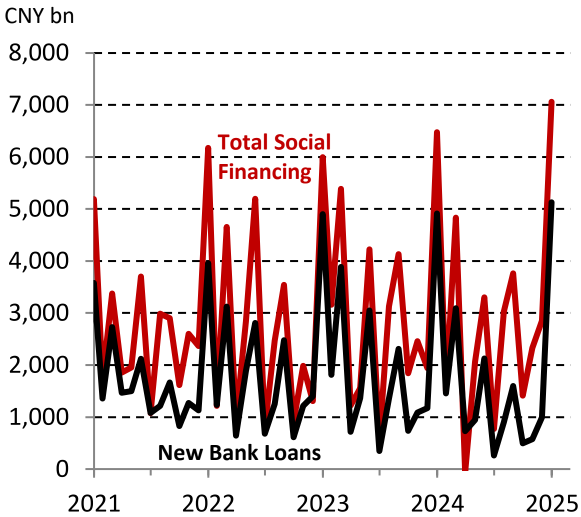
- *China's economy remains under pressure from property sector struggles, but we see several constructive developments in the making that can potentially offset the drag.*
- *Latest data show a welcome rise in credit creation.*
- *Exports, tariff threat notwithstanding, are likely to do well in most of the world.*
- *News on EV, batteries, chips, and AI suggest innovation continues apace.*
- *Chinese stock markets have turned ebullient, accordingly.*
- *US pushback is inevitable, but China's defensive playbook appears solid.*

Chart of the Week: China's lending momentum

The new year is looking promising, with January total social financing (+9.0%yoy) and new bank loans (+4.4%yoy) both hitting record levels. This outturn was driven by a jump in corporate loans to whitelisted real estate companies. Meanwhile, broad money growth remained in the 7%yoy handle. If this trend is combined with momentum in fiscal spending, there should be a salutary near-term impact on consumption, asset prices, and investment, in our view. Noise from the US is negative, but China's internal policy impulse is unambiguously positive.

China: Credit Growth and Liquidity

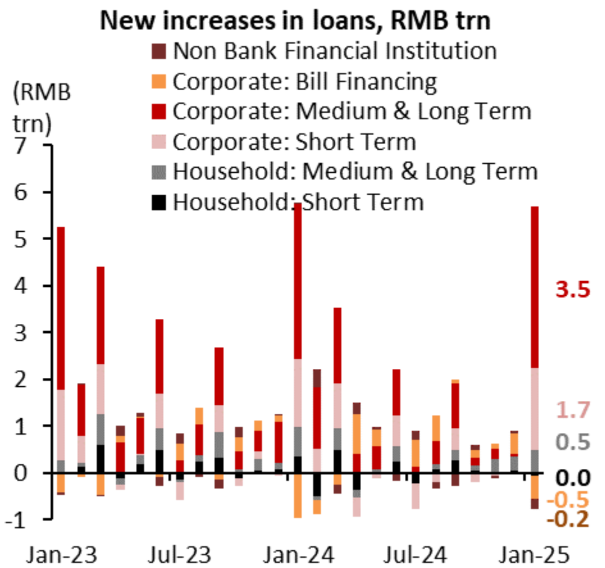


Source: Bloomberg, DBS

Commentary: China's offset to property market distress

China's economy remains under pressure from the property sector, which is beset with large unsold inventory, weak transaction volumes, struggles by some real estate developers to service their loans, and still-weak sentiments about the price outlook. Despite concerted monetary, fiscal, and regulatory measures to restructure and stabilise, we don't expect the real estate sector to support growth in the near term. But news about industrial and tech developments, export performance, and market outturn suggest all is not lost in China. We see several constructive developments in the making that can potentially offset the property sector drag.

Debt-deflation risks need to be countered with large monetary cushion; the Chinese authorities appear to be providing that. Steady cuts in interest rates and liquidity injection have pushed down borrowing costs and helped narrow corporate spreads. Latest data show green-shoots in the corporate lending space, a prerequisite to a trough.



Source: CEIC, DBS

Export did well in 2024 (+5.9%yoy), hitting a record. The nation's relentless investment in green transition, semiconductor manufacturing, and artificial intelligence is paying off, forming a high value-added industrial base for the future. These developments take time, but the new year has brought a plethora of welcome developments. From Chinese EV and battery manufacturers capturing headlines with ever widening product offerings and rising sales, to local DRAM producers becoming a material player in the global chip market, sentiment around innovation has improved. This was most startlingly portrayed by last month's release of DeepSeek's R1 Large Language Model, which sent shockwaves through the Western AI ecosystem.

China's stock markets have turned ebullient. Hang Seng China Enterprises index is up 18% ytd in USD terms, while Shenzhen composite is up 7.4%. Most striking is the 69%ytd gain of Alibaba, the tech giant which five years ago stood at the pinnacle of China's corporate hierarchy, and then went through a dramatic fall from grace due to regulatory actions. With Jack Ma appearing in public with President Xi recently, and the company announcing strides in several AI related initiatives, Alibaba is back.

With Trump 2.0 at the fore, along with an assortment of tariff measures, both realised and threatened, China will have its hands full externally, we are sure. Shoring up domestic demand, supporting home-grown industrial capabilities and innovation, and remaining open to business with the non-US world are China's defensive options. We see all of them in play presently.

Taimur Baig

FX: Markets are overly optimistic about Trump’s push for quick fixes to complex issues

We maintain our outlook that the USD will reaffirm its haven status in the first half of this year. The factors contributing to the greenback’s decline in January-February appear temporary. They include US President Donald Trump’s delay of tariffs, US equities stalling with Fed cut expectations, and untenable optimism regarding Trump’s initiatives to conclude the war in Ukraine and secure a new trade deal with China.

Assuming no further delays, Trump’s extensive list of tariff commitments is set to take effect, beginning with 25% tariffs on Canada and Mexico goods next week. Trump’s reciprocal tariffs risks escalating trade tensions if the affected countries retaliate. US Treasury Secretary Scott Bessent has acknowledged that stalled US disinflation and the Fed’s ongoing balance sheet run-off could **delay plans to extend the duration of government debt issuance**. The Fed expects US PCE inflation (on February 27) to mirror the surprises in CPI and PPI inflation.

This morning’s EUR appreciation on the exit polls indicating the CDU/CSU securing the most votes (28.6%) **in Sunday’s German federal elections should be short-lived.** EUR/USD remains confined within last week’s 1.04-1.05 range. CDU leader Friedrich Merz, poised to become Chancellor, hopes to establish a government by Easter (April 20). Forming a stable and effective coalition government will be difficult because the CSU does not favour the Greens (12.3%). The Free Democratic Party (4.9%) paid dearly for bringing down the last coalition government led by the Social Democratic Party, which won the least votes (16.3%) since WW2. Exit polls show the far-right Alternative for Germany party (AfD) gaining almost twice as many votes (20.4%) from the last elections in 2021, alongside more votes for the Left Party (8.5%) and the BSW (4.9%). Forming a coalition in a fragmented Bundestag will likely result in policy compromises that dilute the effectiveness of economic reforms needed to address Germany’s sluggish economy and the political responses to Ukraine. **Nonetheless, the new German government will likely maintain its firm commitment to Ukraine’s sovereignty** and resist peace initiatives that exclude Ukraine and the EU or make concessions to the US and Russia. Ukraine’s bid for NATO membership, as part of a broader peace agreement, continues to face opposition from Russia.

Trump’s hope for a new comprehensive trade deal with China will necessitate substantial negotiations and reconciliations from both countries. An initial phone call between Bessent and Chinese Vice Premier He Lifeng underscored the complexities of US-China tensions. In a media interview, Bessent described the CNY as a difficult currency to value, citing capital controls and uncertainties around foreign investors’ ability to repatriate funds. While these comments did not explicitly call for a revaluation of the CNY, they implicitly encouraged foreign companies in China to reshore to the US, going beyond the Phase One Trade Deal that focused primarily on China increasing more US imports to address trade imbalances. Recent modifications of the US State Department’s online fact sheet on US-China relations have elicited strong protests from Beijing, intensifying scepticism regarding Washington’s sincerity in resolving trade tensions based on mutual respect, peaceful coexistence, and win-win cooperation.

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Sources: Data for all charts and tables are from CEIC, Bloomberg and DBS Group Research (forecasts and transformations)

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