News: Bloomberg

China Puts Focus on Industrial Policy and Skips Big Growth Stimulus

"China's top leaders including President Xi Jinping vowed to make industrial policy their top economic priority for next year."

China's top leaders including President Xi Jinping vowed to make industrial policy their top economic priority for next year, a message likely to disappoint investors hoping for an emphasis on stimulus.

A readout of the annual economic work conference stressed the use of "technological innovation to lead the construction of a modern industrial system." It also called to "vigorously" develop the digital economy and the artificial intelligence sector.

The ruling Communist Party's emphasis on supporting companies to produce higher-value products above trying to spur consumer spending will worry some economists, who have been calling for more aggressive stimulus to boost growth.

Sluggish domestic demand has been one of the biggest drags on China's economy, hampered by a crisis in the property sector and a weak jobs market. It has also caused deflation.

Language calling for more "appropriately stepped up" fiscal measures and a "prudent" monetary policy echoed a meeting of the ruling party's 24-member Politburo last week. That conclave also emphasized making "progress" on growth, raising expectations for a GDP target next year of about 5%. That would be harder to achieve than this year's target because the consumption rebound from the end of Covid measures has largely played out already.

The readout from the meeting acknowledged a need to boost confidence in the economy, saying its overall "improving trend" was unchanged. Beijing is on target to meet its conservative annual growth target of about 5% for this year, largely due a consumption rebound following the end of coronavirus restrictions. The recovery has also been hampered by weak global demand, record high youth unemployment and the lingering property crisis.

News: Bloomberg

Addressing the main pressure points on the economy, Chinese leaders also pledged to meet builders' reasonable financing needs, ensure employment for "key groups" of people, and maintain reasonable, ample liquidity.

There were signals of new incremental measures. Policymakers hinted at potentially providing subsidies for households to buy new appliances, cars and furniture to spur consumption. There was also a vague vow to launch a "new round of tax reform." Tax cuts were mentioned in the readout, in a departure from last year. The language on housing was unchanged from previous statements, with an emphasis on supplying social housing.

Compared to last year's work conference, there was more emphasis on economic problems caused by a supply-side focus. China is facing "insufficient effective domestic demand, overcapacity in certain industries, weak expectations and rather many hidden risks," according to the Tuesday report. "The complexity, severity and uncertainty of the external environment is rising," it added.

The meeting also called for efforts to make sure supply-side policy was coordinated with efforts to expand domestic demand. Trade relations with blocs like the European Union have become more strained due to China's rising manufacturing trade surplus.

The Central Economic Work Conference was held in Beijing from Monday to Tuesday. Xi made a speech at the event, which was attended by all seven members of the Politburo Standing Committee, according to state media.

The final day of the conference overlapped with Xi's visit to Vietnam, marking the first time the Chinese leader has travelled abroad during the annual economic conference, according to his public schedule.

Source: https://www.bloomberg.com/news/articles/2023-12-12/china-wraps-key-economic-meeting-to-determine-2024-growth-goal

China Convenes Hong Kong Bankers in Bid to Revive Financial Hub

> ***"China's financial policymakers are in Hong Kong this week meeting bankers to seek ways to bolster the city's status as a hub for investments, deals and talent."***

China's financial policymakers are in Hong Kong this week meeting bankers to seek ways to bolster the city's status as a hub for investments, deals and talent.

The Ministry of Finance is convening a meeting Wednesday with bankers as authorities step up efforts to bolster confidence, people familiar with the matter said, asking not to be identified discussing private information. HSBC Holdings Plc, Standard Chartered Plc, Bank of China (HK) are among those invited, the people said.

The discussions will center on how to enhance Hong Kong's position as an international finance center, its risks and challenges, and how strengthening ties with mainland China can help consolidate its status as a hub, the people said. The ministry didn't respond to a fax seeking a comment.

Hong Kong is facing big challenges to maintain its place as an international hub. The city has seen tens of thousands of residents emigrate after years of strict Covid curbs and as China tightened its political grip. Dealmaking has all but dried up as China's economy struggles to rebound to past levels, with major banks cutting staff and shifting out of the city. Scores of smaller brokerages have shut down. Rival hubs including Singapore have been the beneficiaries with heavy inflows of money, and India's stock market is fast gaining on the Hong Kong's market in terms of size.

China's top leaders in early November committed to fully back Hong Kong in maintaining its unique status and strengths. Central bank governor Pan Gongsheng has pledged to intensify collaboration with Hong Kong, emphasizing the city's pivotal role as a link to international markets. He also met with international banks including Morgan Stanley and Goldman Sachs Group Inc.

News: Bloomberg

City leaders have been adamant that Hong Kong is open for business and not losing its luster. They have sought to stem the brain drain by issuing new visas for top talent, taken steps to lure more family offices and have held high level summits with top bankers. But leaders have also maintained a heavy focus on national security, even years after protests were quashed.

Thirty local brokerages have closed down this year, following a record 49 that shut in 2022, according to Hong Kong stock exchange data. A drought in deals is adding to the perception of a troubled market. This year is poised to be the worst for Hong Kong IPOs since 2001, marked by a total of $5.1 billion in debuts.

Banks are downsizing, with lenders including Goldman and Morgan Stanley conducting multiple rounds of layoffs in Hong Kong over the past year. Hong Kong has lowered its economic growth forecast for this year to 3.2% from range of 4%-5%, according to its Census and Statistics Department, signaling tough times are still ahead for the financial hub amid a muted post-pandemic recovery.

Source: https://www.bloomberg.com/news/articles/2023-12-13/china-policymakers-visit-hong-kong-to-boost-finance-hub

News: Bloomberg

Japan Business Sentiment Rises Across the Board Ahead of BOJ

"Confidence among a wide range of Japanese companies picked up in the fourth quarter, sending a positive signal to the Bank of Japan ahead of next week's policy decision."

Confidence among a wide range of Japanese companies picked up in the fourth quarter, sending a positive signal to the Bank of Japan ahead of next week's policy decision. An index of sentiment among the country's biggest manufacturers rose to 12 in December from 9 three months earlier, the third straight gain, according to the BOJ's quarterly Tankan report Wednesday. The reading beat economists' forecast of 10.

The business mood among the largest non-manufacturers also improved to 30 from 27, exceeding economists' expectations and setting a fresh 32-year high. A positive figure means optimists outnumber pessimists.

The data showed sentiment picking up across the board, with an index for small manufacturers rising to 1, turning positive for the first time since early 2019. The gauge for small non-manufacturers advanced to 14, beating estimates.

The evidence of robust corporate sentiment will come as a welcome sign for the BOJ, as it boosts the likelihood that companies can continue to conduct the large wage hikes that the central bank hopes might feed into a positive wage-price cycle that would pave the way for normalizing monetary policy.

"Today's results overall show that the economy isn't going to fall apart," said Shinichiro Kobayashi, chief economist at Mitsubishi UFJ Research and Consulting. "This Tankan is supportive for the BOJ to move toward normalization, and I continue to expect the step in April after the bank confirms the results of spring wage negotiations."

The Tankan survey showed that companies are generally maintaining their capital investment plans, with large firms across all industries saying they intend to increase such investment by 13.5% in the current fiscal year, largely unchanged from their view three months ago.

News: Bloomberg

"The capital spending plans are also solid," Kobayashi said. "There have been some companies that have become hesitant due to high material costs, but the Tankan shows they haven't given up and will go ahead to invest."

The data add to signs that the economy will likely return to growth in the current quarter after a deep dip in the previous period. Gross domestic product contracted at an annualized pace of 2.9% in the three months through September as households reined in spending, according to revised figures last week.

Source: https://www.bloomberg.com/news/articles/2023-12-12/japan-large-manufacturer-sentiment-improves-ahead-of-boj-meeting