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China's Deflation Pressures Likely to Continue Through Mid-2024 On Weak Demand

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China's deflation pressures are likely to continue for at least another six months on weak demand and as the property crisis continues to sap confidence within the economy.

A measure of economy-wide prices called the gross domestic product deflator is expected to decline for at least two more quarters, according to 12 of 19 economists in a new Bloomberg survey. That gauge, which measures the difference between nominal and real GDP growth has already fallen for the last three quarters, and a continued drop through June would mark the longest streak since 1999.

"The culprit is the property downturn," said Raymond Yeung, chief economist for Greater China at Australia & New Zealand Banking Group Ltd. He projected another two quarters of declines in the gauge. "Households lack confidence in real estate. They are not sure whether property is wealth-preserving. They need an assurance by the authorities."

Entrenched deflation and declining house prices are two of the most serious problems faced by the world's second-largest economy this year as it tries to regain and sustain momentum. While China was able to reach an official growth goal of "around 5%" in 2023, repeating a similar performance may be difficult.

Economists in a separate Bloomberg survey upgraded their growth forecasts slightly for the next couple of years. GDP in 2024 is now seen expanding 4.6% from the prior year, according to a poll of 66 economists, up slightly from an earlier projection of 4.5%. The median estimate among 51 economists for growth in 2025 was raised to 4.5% from 4.3%. Still, those figures track below the 5% growth rate that several economists, including some linked to the government have speculated Beijing may target this year.

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Consumer prices are seen remaining depressed to start the year, with economists projecting the consumer price index rising 0.2% this quarter before gradually speeding up. The median estimate for annual CPI was 1.1%, slightly lower than the 1.4% gain in the last survey.

“A key risk to watch out for is that of deflationary expectations setting in among households and businesses,” said Erica Tay, economist at Maybank Securities. “At this juncture, the urgency of fiscal support has intensified.”

All but one of 17 economists surveyed forecast home prices will continue dropping month-on-month until the third quarter of this year. The price of newly built homes has fallen every month since April 2022. Second-hand home prices have declined for even longer.

“It’s hard to see a quick turnaround soon,” said Allan von Mehren, chief China economist at Danske Bank A/S. “More aggressive monetary stimulus and further easing of housing policies should lead to stabilization in prices in the second half of 2024.”

Source: https://www.bloomberg.com/news/articles/2024-01-29/china-s-deflation-pressures-seen-persisting-through-mid-2024

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US Aims to Announce Big Grants for Chip Plants by End of March

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The US is aiming to announce major chip grants by the end of March, people familiar with the plans said, paving the way to send billions of dollars to semiconductor makers in a bid to supercharge domestic production.

The awards slated to go to Intel Corp. and other chipmakers are a central piece of the 2022 Chips and Science Act, which set aside $39 billion in direct grants to revitalize US manufacturing.

Intel has said that the grants will determine how quickly it progresses with expansion projects, including a planned facility in Ohio that would be the world's largest. Overseas chipmakers such as Taiwan Semiconductor Manufacturing Co. and Samsung Electronics Co. also are expected to get a portion of the funds, helping them pay for factories in the US.

The money has been slow to trickle out so far, with only two small grants announced more than a year after Biden signed the landmark initiative into law. The effort, aimed at rebalancing what's seen in Washington as a dangerous concentration of production in East Asia, is a key pillar of Biden's economic message heading into the November election. It brings promises of thousands of well-paying factory jobs in new manufacturing hubs across the country.

The timing suggests the awards may be unveiled before President Joe Biden's State of the Union address on March 7. Spokespeople for the White House and Intel declined to comment.

Commerce Secretary Gina Raimondo has said her agency plans to make about a dozen awards this year, including several multibillion-dollar grants to support advanced chipmaking facilities. The awards, which could come as a combination of grants, loans and loan guarantees, will cover up to 15% of project costs. The Commerce Department declined to comment.

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For chipmakers, the disbursements will help cushion the financial impact of building facilities that can cost as much as $30 billion and yet be obsolete within a decade. Semiconductor companies have pledged to invest more than $230 billion in the US in recent years, many on the explicit condition that they receive government support.

Source: https://www.bloomberg.com/news/articles/2024-01-27/us-set-to-announce-big-grants-for-chip-factories-by-end-of-march

China Tightens Securities Lending Rule to Support Stock Market

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China will halt the lending of certain shares for short selling from Monday, the securities regulator announced Sunday, in a move to support the country's slumping stock markets. Strategic investors won't be allowed to lend out shares during agreed lock-up periods, the Shanghai Stock Exchange and Shenzhen Stock Exchange said in separate releases following the China Securities Regulatory Commission's statement.

"The move may have limited impact in terms of stabilizing the market" as some estimates show that such security lending balance is of insignificant size, said Willer Chen, senior analyst at Forsyth Barr Asia Ltd. "Still, this is a good gesture as market participants had been calling for regulators to step in on this front."

Authorities are taking measures following an alarming slide in Chinese stocks. Last October, limits were put on the lending of shares that executives and other key employees get in strategic placements, and other curbs were imposed. Since then, the outstanding value of stocks lent by strategic investors has dropped 40%, the CSRC said Sunday.

Bloomberg reported last week that state-owned Citic Securities Co. had stopped lending stocks to individual investors and raised the requirements for institutional clients after so-called window guidance from regulators.

The limit on short selling, however, is unlikely to give stocks a sustainable boost as sentiment remains weak. In 2015, China restricted short selling to force out day traders, whose selling and buying on the same day was seen as fueling "abnormal fluctuations." However, the market continued to slide in the following months.

News: Bloomberg

The CSRC also vowed Sunday to crack down on the bypassing of lock-up restrictions. From March 18, securities finance firms that borrow shares from institutional investors will have to wait one day before providing them to brokerages instead of the stock being immediately available, according to Sunday's statement.

"China's tightening on short-selling is set to trigger a temporary upswing in growth-oriented sectors like new energy and electric vehicles, which are already buoyed by ongoing state support with a relatively bright outlook," said Hebe Chen, an analyst at IG Markets. "However, this measure appears to be more of a short-term remedy, lacking any effective medicine to address the root causes contributing to the recent stock market meltdown."

Source: https://www.bloomberg.com/news/articles/2024-01-28/china-suspends-lending-of-some-securities-for-short-selling