

COMMENTARY

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China Chartbook: Policy Pivot

Two big policy meetings this week flagged more support in 2025.

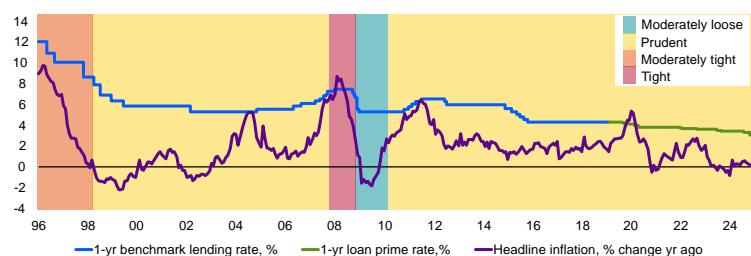
- This week, China announced a looser monetary policy stance and plans for greater fiscal spending.
- Details were scant, but the announcements are the most concrete sign of a significant stimulus program next year.
- The announcements come against the backdrop of looming tariffs. Ahead of their implementation, exports to the U.S. are climbing.
- We expect a spending program of a little more than 1% of GDP in 2025 and 2026, adding around 0.3 percentage point to growth next year and 0.5 percentage point the following year.

It's been a busy week for Chinese officials. It started with the Politburo meeting on Monday, where members of the highest political arm of the Communist Party's Central Committee pledged to shift to a 'moderately loose' monetary policy stance, moving away from 14 years of 'prudent' policy. The last time China adopted a 'moderately loose' stance was after the Global Financial Crisis in late 2008.

The move foreshadows rate cuts next year. That said, it's probably more symbolic than anything else. Even under the supposedly more conservative policy stance, China has cut key lending rates by a cumulative 350 basis points since 2011—more than during the prior period of 'moderately loose' policy. Regardless, this signal that support is on its way is good for investor confidence.

Loosen Up

Key lending rates and inflation



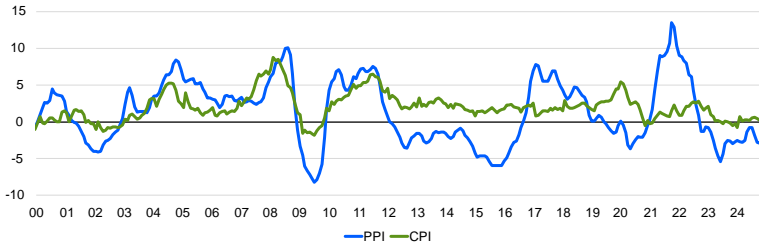
Note: 1-yr benchmark lending rate replaced by 1-yr LPR in 2019.

Sources: Moody's Analytics

The move comes hot on the heels of November's cool inflation print. Price data released the morning of the Politburo meeting showed that China's economy is still dancing with deflation. Consumer prices rose just 0.2% year over year as inflation weakened for a third straight month. On the other side of the price coin, producer prices have been falling for 26 months.

Deflated

Price measures, % change yr ago

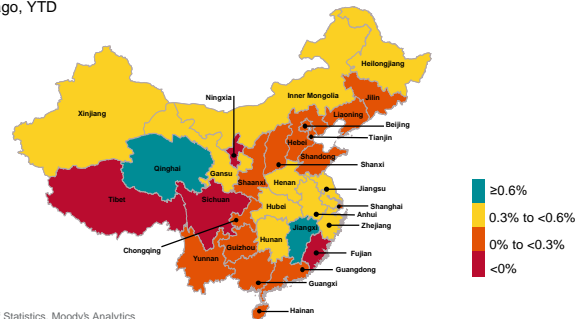


Sources: National Bureau of Statistics of China, Moody's Analytics

Across the country, four province-level regions are in outright deflation. Consumer prices have been falling all year in Fujian, Ningxia, Tibet and Sichuan. Inflation in a further nine has averaged less than 0.2% year on year.

Mixed Picture

Inflation, % change yr ago, YTD

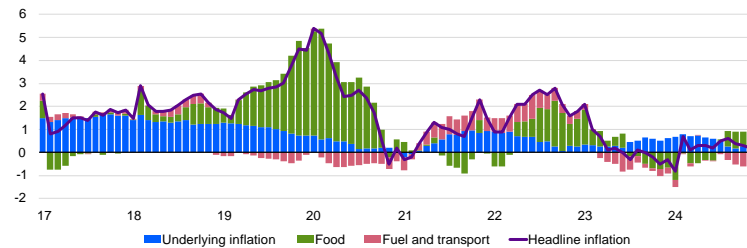


Sources: China National Bureau of Statistics, Moody's Analytics

Meek household spending means demand-led inflation is non-existent. As we've noted many times before, households are nervous. Job insecurity is elevated, graduates are struggling to find work, and a falling property market is denting household wealth. That combination has kept retail sales growth this year to just 3.5% year on year, well behind the 5.8% growth in industrial production. At the same time, fierce domestic competition and pockets of overcapacity perpetuate discount wars in key sectors such as cars and household appliances. The result is an underlying inflation print of just 0.3% year on year in November.

Underlying Inflation Is Crawling

Contribution to inflation, ppt change yr ago

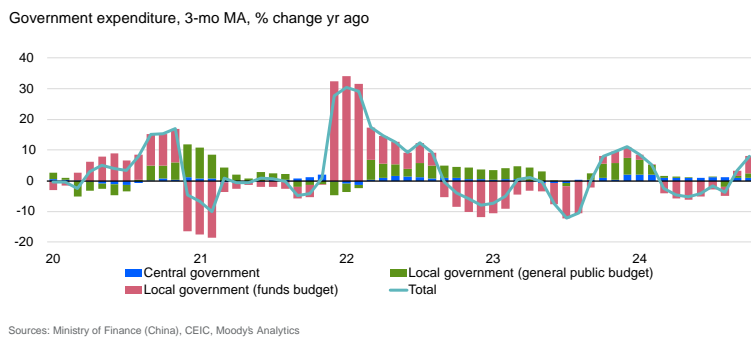


Sources: National Bureau of Statistics of China, Moody's Analytics

Alongside looser monetary policy settings, the Politburo promised 'more proactive' fiscal policy to boost consumption, improve investment efficiency, and expand domestic demand. Those sentiments were turbocharged at the Central Economic Work Conference in the second half of the week. In a rare move, the annual agenda-setting meeting listed 'lifting consumption vigorously' as the top priority for next year. To make that happen, the Politburo flagged plans to bolster social safety nets, lift the fiscal deficit ratio, and increase the issuance of ultra-long-term special government bonds. It also reiterated plans to stabilise the property market, rectifying what has been a drag on consumer confidence and spending for the better part of four years.

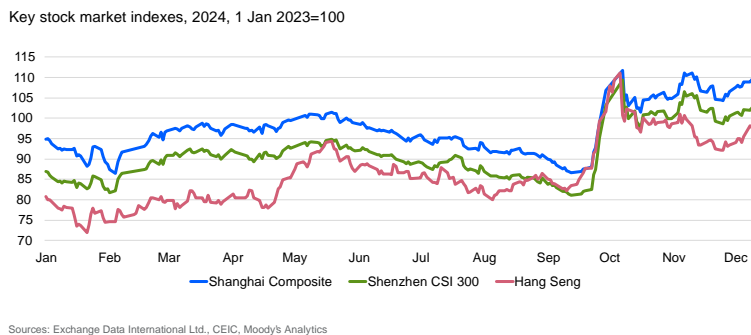
The lift in government spending is overdue. Outlays have trailed 2023 levels for most of this year. It's only since September, as pressure on officials mounted to hit the year's growth target, that spending picked up.

Government Spending Only Now Starting to Support



The details of the stimulus boosters are still to be worked out. The conference typically delivers statements of intent that are fleshed out later by the relevant ministries. Case in point, the CEWC likely discussed the 2025 growth target, but that goal won't be made public until the annual legislative sessions in March. Regardless, the shift in tone was enough for investors, with the equity markets jumping this week, led by consumption-linked stocks.

Investors Gave Tick of Approval

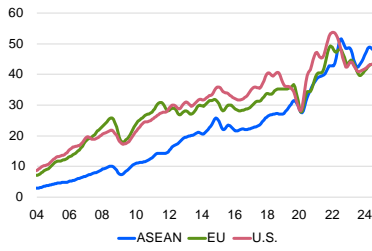


The support ramp-up is not isolated from U.S. President-elect Donald Trump's looming [return to the White House](#). Tariff hikes are coming for Chinese exports to the U.S.; Trump got the ball rolling a few weeks back when he said he'd put an additional 10% tariff on all goods from China in response to illegal fentanyl shipments into the U.S.

Ahead of new tariffs, some stateside firms are ramping up purchases. Exports to the U.S. jumped 8% year on year in November, building on an 8.1% jump in October. This took the value of monthly shipments to the U.S. to its highest since September 2022. That trend will continue. Cargo flights out of China are on the up, while online Chinese shopping behemoths Temu and Shein saw strong sales growth to the U.S. in November.

Exports Stay Strong

Exports by destination, \$bil, trended



Number of international cargo flights from China, ths



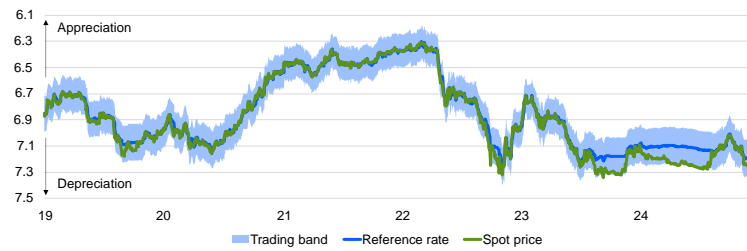
Sources: Government of China, CEIC, Moody's Analytics

The week also provided greater clarity on China's likely response to extra tariffs. On Monday, the State Administration for Market Regulation opened a probe into Nvidia, a U.S.-listed tech giant. That follows bans on sales, including transshipments, to the U.S. of strategic minerals such as gallium, germanium, antimony and 'superhard materials'. China has also tightened controls on graphite exports. All are important components for military products, including drones.

The week also heard rumblings that officials would look to devalue the yuan to boost the competitiveness of its exports in the face of tariffs. While some depreciation is likely—the offshore spot price has fallen since Trump's election—a sharp drop is unlikely. A rapid depreciation could drive a capital exodus that knocks equity markets and risks financial stability.

Yuan Under Pressure

CNY per USD, inversed



Sources: People's Bank of China, Federal Reserve, CEIC, Moody's Analytics

Clearly, officials are trying to fill the void that coming tariffs will leave. We expect a spending program of a little more than 1% of GDP in 2025 and 2026, which will add around 0.3 percentage point to growth next year and 0.5 percentage point the following year.

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