BNY MELLON
iFlow
MACRO MORNING BRIEFING

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Sentiment Boost For China Real Estate Sector

Promising news in relation to China's real estate sector has sparked renewed optimism in anticipation of a fresh and more aggressive round of supportive policy measures. The catalyst: explicit reference to housing inventories by the CPC Central Committee Political Bureau at its meeting at the end of April. The politburo demanded research on policies to reduce housing inventory and to establish a new model of the real estate sector to promote its high-quality development. An active strategy to reduce housing inventory, if conducted successfully, could be a game-changer for China's overall growth dynamic, in our view.

Equities reacted positively, with the rebound in the CSI 300 Real Estate Index reaching 20% from its late-April lows. To be sure, conditions in the real estate sector remain tough and it's been one of the main drags on economic growth – directly impacting domestic sentiment. Despite the recent, strong comeback, the real estate sector has been one of the weakest links this year: sector index down 10% year-to-date against a gain of over 5% for the broad CSI 300. (Health Care has been another underperforming sector, also -10% year-to-date.)

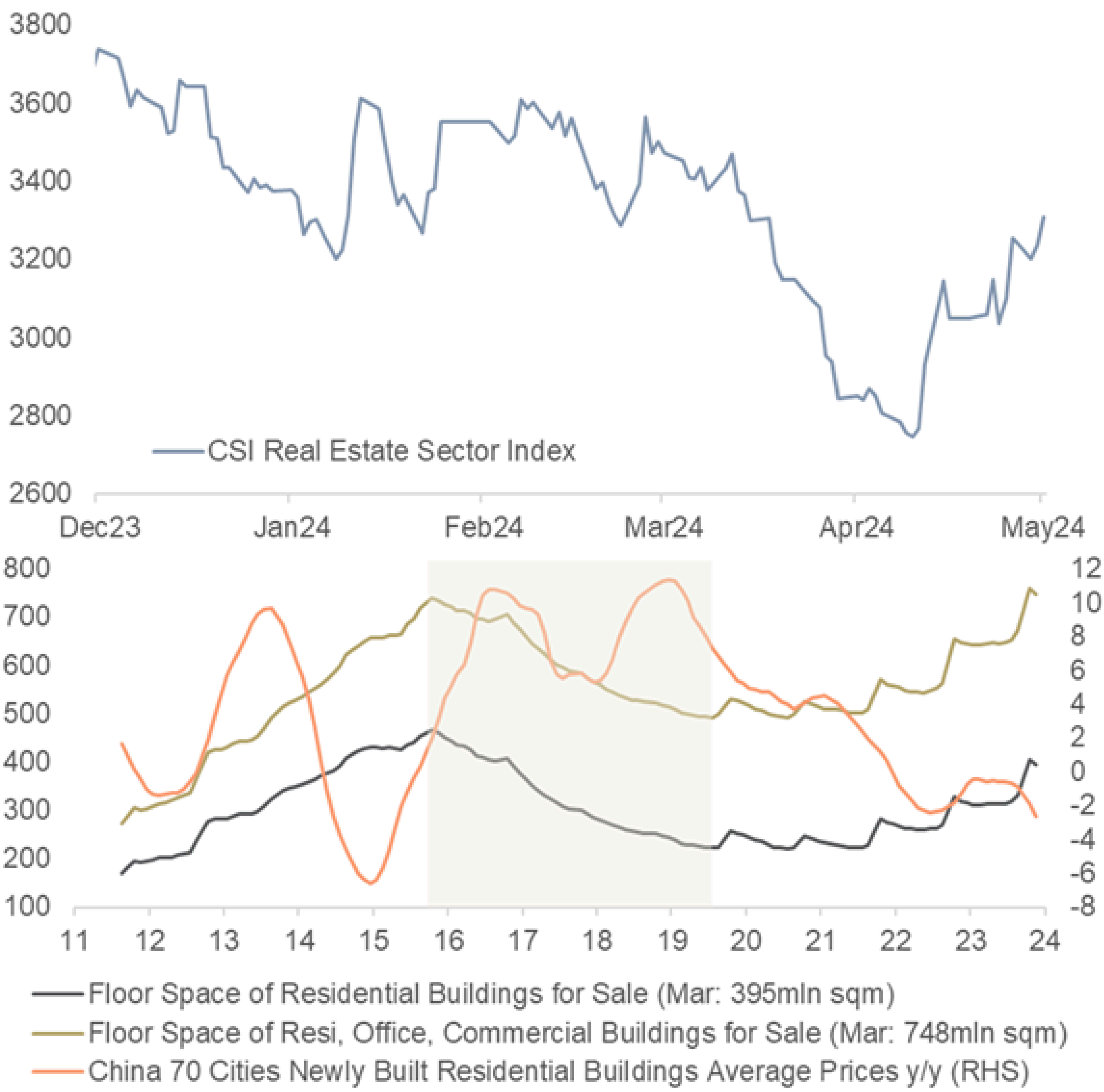
The previous round of efforts aimed at destocking housing inventory was at the end of 2015. Measures then included redevelopment of so-called shanty towns, which came with a pledged supplementary lending program, as well as lower interest rates to encourage home buying. As of March 2024, the total floor space of buildings available for sale was 748 million square meters, up 15.6% y/y and higher than the end-2015 peak. Floor space of residential buildings available for sale was 394 million square meters, up 23.9% y/y.

It is probably unrealistic to rely solely on domestic households to buoy the property sector this time around, as they have done since 2016 – by incurring high levels of indebtedness. The prior housing euphoria saw fast-paced accumulation of housing-related debt, averaging 4.8% of GDP per annum from 2016 to 2019, nearly double the calmer 2.5% of GDP annual pace in the preceding five years (2010-2015). Household debt rose from 38% of GDP at the end 2015 to 55% of GDP at the end of 2019. By the end of 2023 it was up to 66% of GDP.

Recent policy measures, such as the relaxation of housing purchase restrictions and trade-ins of commercial housing, have yet to produce a substantial improvement in sentiment. The politburo statement noted above is the strongest signal yet that more policies will likely be rolled out. It also indicates maximum focus on stabilizing the real estate sector, which accounts for 70% of household wealth and contributes more than 20% to GDP.

One of the ideas discussed is for local governments to buy unsold homes to be converted into affordable housing. Lin'an District in Hangzhou announced this week intent to buy no more than 10k square meters of flats for rental purposes. The scale of this is small, but we think an important step forward nonetheless. Real estate stabilisation and recovery is a medium-term goal for China. Policies appear headed in the right direction to achieve that.

Exhibit #1: Real Estate Sentiment, Floor Space, New Build Prices

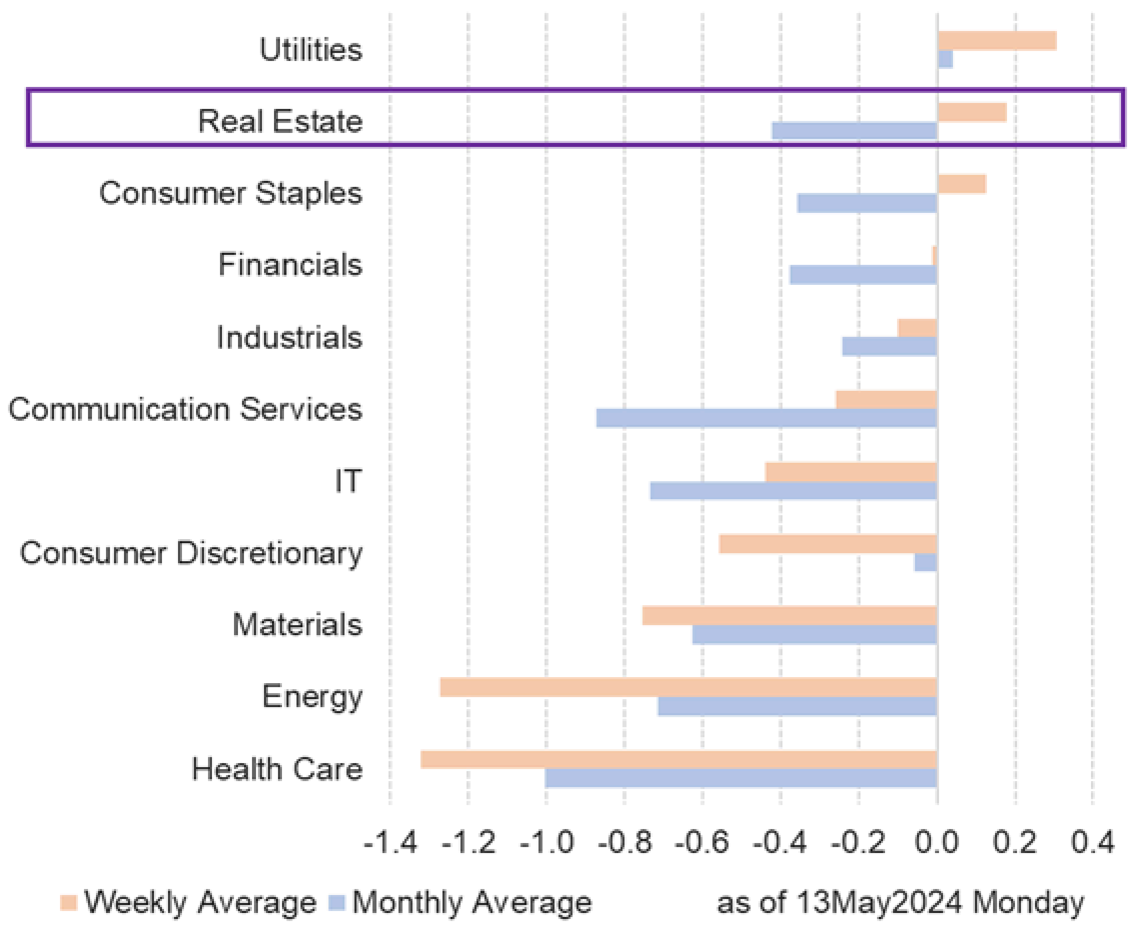


Source: BNY Mellon Markets, Bloomberg L.P.

Looking ahead, real estate-related macro data on household borrowing, housing sales (March: -23.4% ytd y/y) and inventories (March: +23.9% ytd y/y), and property investment (March: -9.5% ytd y/y), as well as how equities and corporate bonds fare, will be closely watched. Household borrowing in April fell to CNY 532bn (second down month this year). That medium- to long-term loans, a proxy for mortgages, dropped by CNY 174bn last month suggests that households repaid more loans than they took out.

We are encouraged by the tentative vote of confidence in China's real estate sector amidst continued equity selling in wider APAC. As per iFlow data, the EM APAC real estate sector posted small inflows over the past week, a reversal from selling pressure on the month. We're closely monitoring the macro dynamics of China flows. So far, global investors have mostly refrained from investing in China despite the strong rebound in asset prices. We wouldn't rule out short covering or a re-adjustment of China allocations in global portfolios.

Exhibit #2: iFlow EM APAC Equity Sector Flows

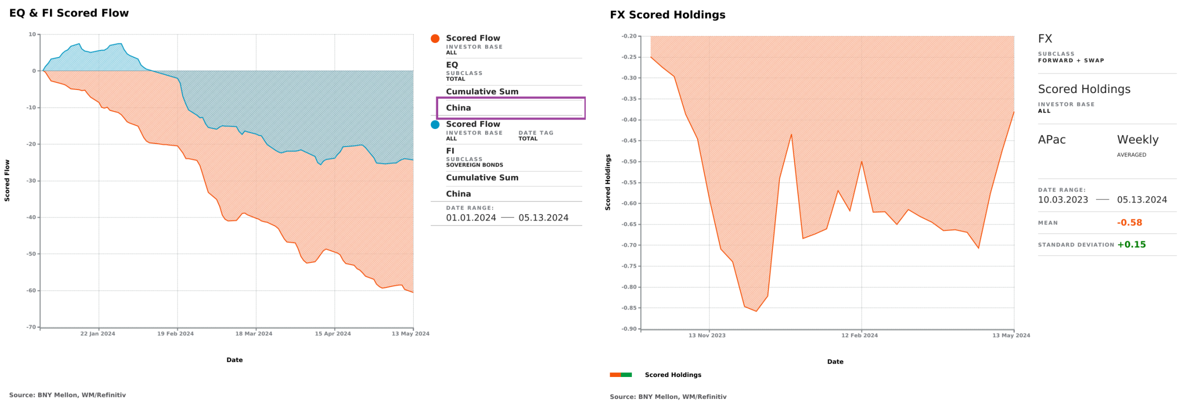


Source: BNY Mellon Markets, Bloomberg L.P.

iFlow shows small USD inflows over the past week – after weeks of strong outflows. As for regional aggregates, flows into APAC and EMEA currencies remain firm, while LatAm currencies suffered mild outflows. The most notable observation within APAC FX is the sharp covering of short positioning. Aggregate APAC FX weekly average scored holdings have narrowed substantially, from -0.70 at the beginning of April to -0.38 as of this week. THB weekly average scored holdings of -1.46 keeps it the most underheld APAC currency (second-most underheld currency in the iFlow universe, after PEN at -1.75).

In terms of assets, investor flows towards China equities remain weak – further selling over the past week. Indeed, iFlow has recorded only two weekly inflows this year. However, iFlow also shows tentative signs of stabilisation in China sovereign bond flows. Overall, equity and sovereign bond flows were mixed. One notable observation: demand for all Thailand assets – equities and sovereign and corporate bonds. Aggressive outflows from Indonesia sovereign bonds in April appear to have exhausted, as flows have reversed in May.

Exhibit #3: China Asset Flows & APAC FX Scored Holdings



Source: BNY Mellon Markets, Bloomberg L.P.

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