MASHREQ GLOBAL DIGEST
China
January 19 – January 25

This edition of Market Digest covers China's key macroeconomic indicators and updates on financial and corporate news, offering insight into current trends shaping the economy.

Macroeconomic News

China Grows by 5% in 2024, but 2025 Outlook Remains Uncertain

China's economy grew by 5.0% in 2024, meeting the government's target but marking one of the slowest rates since 1990 outside the Covid pandemic. The fourth quarter saw a stronger 5.4% growth, driven by stimulus measures like interest rate cuts and tax incentives for property purchases. Industrial output rose 5.8%, but retail sales were sluggish at 3.5%, reflecting weak domestic demand. Exports were temporarily boosted by front-loading U.S. orders, but consumer pessimism and rising unemployment dampened sentiment. With a shrinking population and structural imbalances, Beijing plans heavy stimulus and debt for 2025, though trade tensions and the need for reforms pose risks. Q1 2025 shows early signs of growth, but economists warn of a potential slowdown, with Beijing likely maintaining a 5% GDP target and introducing more stimulus in March.

Reference: CNBC, The Guardian

China's 2024 Fiscal Revenue Growth Slows

In 2024, China's fiscal revenue grew by just 1.3%, a significant slowdown from the 6.4% increase in 2023. Total revenue reached 21.97 trillion yuan ($3.03 trillion), with tax receipts dropping 3.4% and non-tax income rising 25.4%. Non-tax revenue, which includes fines, confiscations, and state-owned enterprise profits, surged due to local governments' increased imposition of fines and fees, a move that has raised concerns about business confidence. Revenue from land sales fell by 16%, highlighting the downturn in the property market. As China faces external economic challenges, leaders are focused on adopting a more proactive fiscal policy in 2025.

Reference: Yahoo Finance

China's Trade-In Stimulus Drives 1% Boost in 2024 Consumption

China's stimulus scheme for consumer goods trade-ins boosted 2024 consumption growth by over 1%, with sales of cars, home appliances, and electric bicycles reaching 1.3 trillion yuan ($179.45 billion). This helped retail sales grow by 3.5% year-on-year. The government plans to expand this scheme in 2025, including adding more products and offering subsidies for digital goods. However, some analysts, like Nomura, expect the positive impact to fade by the second half of 2025 due to the nature of durable goods and potential shifts in consumer spending.

Reference: Reuters

China's Surplus Crude Oil Surges, Opening Options for 2025

China's crude oil surplus surged in 2024, reaching 1.15 million barrels per day (bpd), up from 760,000 bpd in 2023. This was mainly due to refiners importing cheaper Russian oil. Despite a slight drop in surplus in December, China has strong inventory levels, which gives them options as oil prices rise. However, with higher prices and limited demand for gasoline and diesel, refiners may reduce imports in 2025, particularly if global oil prices continue to rise. The trend towards new energy vehicles (NEVs) and a weaker construction sector could also keep fuel demand lower.

Reference: Reuters

Trump Threatens 10% Tariffs on China Starting February 1

President Donald Trump has threatened a 10% tariff on all Chinese imports starting February 1, 2025, citing concerns about fentanyl being shipped from China to the U.S. through Mexico and Canada. While he has discussed tariffs on multiple countries, including Mexico and the EU, Trump's recent conversation with Chinese President Xi Jinping was described as friendly, and Trump expressed a willingness to reach a trade deal with China. Although Trump has used tariffs as a tool in the past, he emphasized that he would prefer not to impose them, despite recognizing their power.

Reference: CNN, Reuters

Financial News

China Pushes Insurance Funds to Invest in Stocks

China is implementing a plan to stimulate its stock market by encouraging state insurers and commercial funds to increase investments in A-shares. Supported by six financial regulators, this initiative includes long-term performance evaluations and targets for equity investments. It builds on previous efforts such as swap and relending schemes worth 800 billion yuan. The move aims to strengthen market confidence amid concerns over potential U.S. tariffs and economic slowdowns.

Reference: Reuters

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Optimistic Outlook for Hong Kong Banks in 2025

KPMG's Hong Kong Banking Outlook for 2025 signals an optimistic year ahead for the sector, with recovery underway following a challenging period. Banks are set to benefit from slower-than-expected interest rate cuts, helping them maintain strong margins. The report highlights the game-changing role of emerging technologies like Generative AI and virtual assets, with over one-third of financial institutions already embracing Generative AI, bolstered by government initiatives like the HKMA's Generative AI Sandbox. To succeed, banks should focus on cost optimization, digital transformation, and data governance. Resilience against cyber threats remains a key regulatory focus.

Reference: Zawya

China Holds Lending Rates Amid Yuan Pressures

China's central bank, the PBOC, kept its 1-year and 5-year loan prime rates at 3.1% and 3.6%, prioritizing currency stability amid a weakening yuan. Recent rate cuts and yuan stabilization measures reflect concerns over consumer demand, a property slump, and U.S. trade policies under the Trump administration. While Beijing's stimulus boosted Q4 growth, underlying challenges remain. Economists predict further rate cuts in 2025, influenced by U.S. Federal Reserve actions and evolving market conditions. The PBOC continues emphasizing financial stability and exchange rate control.

Reference: CNBC

Corporate News

TikTok U.S. Operations Could Be Worth $50 Billion if Sold

TikTok's U.S. operations could be valued at $40-$50 billion if ByteDance decides to sell, following concerns over national security that could lead to a potential ban in the U.S. A sale may face challenges due to regulatory scrutiny, with some estimates placing the value lower, around $30-$35 billion. Business figures like Elon Musk and investor groups have shown interest in acquiring the U.S. unit, but the transaction could be complex due to issues with TikTok's algorithm, which is not part of a potential sale. The White House is exploring solutions involving Oracle and U.S. investors to address security concerns and prevent a ban, though discussions remain ongoing. Meanwhile, ByteDance plans to spend $20.64 billion on capital expenditure in 2025, with around half allocated to AI infrastructure, including data centers and networking equipment, benefitting suppliers like Huawei, Cambricon, and Nvidia.

Reference: CNBC, Reuters, Reuters

U.S. Firms Accelerate Plans to Exit China

A record 30% of U.S. companies in China are planning to relocate manufacturing or sourcing, according to a 2024 survey by the American Chamber of Commerce in China. This reflects rising geopolitical tensions, supply chain disruptions from COVID-19, and slowing economic growth in China. While India and Southeast Asia are popular destinations, 18% of respondents are also considering returning to the U.S. The survey highlights that U.S.-China tensions, competition from local firms, and slower growth are key challenges. Despite challenges, many firms remain optimistic about opportunities in Chinese consumer markets and services expansion abroad.

Reference: CNBC

Markets

Market Dashboard

- The S&P 500 hit a record high this week, rising by 1.74%, driven by optimism from President Trump's policy comments on interest rate cuts and lower oil prices. Positive earnings reports, particularly from GE Aerospace and Elevance, also boosted investor sentiment. Despite concerns over tariffs, which could increase inflation, investors were encouraged by the prospects of lower costs in key areas. Healthcare and industrial sectors saw the most significant gains.
- Crypto markets have remained steady this week, with Bitcoin briefly surpassing $109,000 following President Trump's executive order on cryptocurrency regulations. However, Bitcoin has since retreated to around $105,000. Trump's administration has promised crypto-friendly policies, but some profit-taking and uncertainty have tempered market optimism. The $TRUMP token, linked to the president, faced scrutiny and a significant drop in value.
- Gold prices are nearing their record high, rising 2.6% this week due to a weaker dollar and President Trump's push for lower interest rates. The precious metal is now just a few dollars away from its all-time high of $2,790.15. Focus is now on Trump's potential tariff announcements and the Federal Reserve's meeting, where a decision to leave rates unchanged is expected.
- Oil prices ended the week lower due to President Trump's calls for OPEC to cut prices and efforts to boost U.S. production. The market faced concerns over oversupply, potential tariffs, and weak demand forecasts. However, a temporary drop in U.S. crude inventories provided some support.
- The euro strengthened against the dollar, reaching its highest level in over a month, driven by improved business confidence in the eurozone. Additionally, easing concerns over President Trump's tariff stance and favorable earnings reports from luxury brands contributed to the euro's rally, pushing it above $1.05 for the first time since mid-December.

Indicators	17-Jan-25	24-Jan-25	% Change
S&P 500	5,996.66	6,101.24	1.74%
Bitcoin	104,462.04	104,819.48	0.34%
Gold	2,701.55	2,771.25	2.58%
Crude Oil	80.79	77.48	-4.10%
EUR/USD	1.0302	1.0416	1.11%

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