HK's tycoons spend billions on Chinese property bargains

HONG KONG'S property tycoons are swooping in on a rare opportunity to cherry-pick prime land and projects in mainland China as their counterparts there battle a credit crisis.

The financial hub's real estate developers are stepping up investments in the mainland, where a government squeeze on leverage and credit-market turmoil have triggered a record wave of defaults, limiting the ability of local builders to buy new land. Struggling developers such as China Evergrande Group and Shimao Group Holdings Ltd. are also being forced to put treasured assets on sale to alleviate their liquidity squeeze.

The push underscores the relative financial strength of Hong Kong's developers and marks a reversal of earlier dynamics that saw mainland firms expand into Hong Kong. Little more than a year ago, Kaisa Group Holdings Ltd. was seen as an up-and-coming player in the city's property market. By December the Chinese property developer was a desperate seller and in default.

"Hong Kong developers are seizing a downturn in China's property market, but are also cautious in picking the high-quality projects with long-term potential," said Michael Wu, a senior equity analyst at Morningstar Investment Service.

New World Development Co., one of the city's leading developers, is betting big on the Greater Bay Area comprising Hong Kong and Guangdong province. China's implementation of the so-called three red lines — metrics introduced to curb borrowing among its developers — has presented an opportunity, Chief Executive Officer Adrian Cheng said.

Adrian Cheng, vice chairman of New World Development Co., poses for a photograph at the Bloomberg New Economy Forum in Singapore, on Wednesday, Nov. 7, 2018. The New Economy Forum, organized by Bloomberg Media Group, a division of Bloomberg LP, aims to bring together leaders from public and private sectors to find solutions to the world's greatest challenges.

Hang Lung Properties Ltd.'s Vice Chair Adriel Chan said in January that "the sky is the limit" for the firm's scale of potential acquisitions in mainland China. There are more opportunities in the Chinese market for strongly geared companies like Hang Lung, said Mr. Chan, who is the grandson of the company's founder.

Ramping up mainland investments gives Hong Kong developers another avenue of growth as their own market gets saturated and the authorities pay greater attention to affordability, allocating more land to build public housing.

In China, the retreat of cash-strapped developers from government auctions, a traditional way for builders to acquire new plots, is suppressing land values. Average prices in February declined to the lowest since 2019, at 1,905 yuan ($300) per square meter, according to China Real Estate Information Corp., a local research provider.

Hong Kong players are likely to be interested in commercial property projects in first- and second-tier Chinese cities where their branding and management make them stand out, according to Philip Tse, director and head of Hong Kong and China property research at Bocom International Holdings Co.

That's in contrast with residential property development, which hasn't always gone to plan for the city's developers, according to Patrick Wong, a real estate analyst at Bloomberg Intelligence. — ***Bloomberg***

US Fed's best hope increasingly looks like a 'semi-hard' landing

AS THE Federal Reserve wrestles with bringing down decades-high inflation, perhaps the best economic outcome it can hope for sounds like a contradiction: a growth recession.

That's a situation where the economy expands more slowly than its roughly 1.5% to 2% long-term trend and unemployment ticks up, but an outright contraction is avoided. While falling short of the picture-perfect soft landing that Fed Chairman Jerome Powell and fellow policy makers envisage, it's an outcome that economists like Nobel laureate Paul Krugman see as desirable to help ease persistent price pressures.

"If they're lucky, maybe they'll get by with a growth recession next year," said Peter Hooper, a former central bank official who's now global head of economic research for Deutsche Bank AG. He sees a downturn as more likely than not.

The Fed needs to slow an economy that is "clearly overheated" as it comes out of the pandemic, said Mr. Krugman, a City University of New York professor.

Inflation — which is already at a 40-year high and more than three times the Fed's 2% target — looks set to accelerate again as supply disruptions from the Ukraine war boost food and energy prices. The labor market is, in the words of Mr. Powell, "extremely tight," with 1.7-plus job openings for every unemployed person.

To try to take the edge off demand, the Fed intends to raise interest rates "expeditiously" to more normal levels and is prepared to push them into "restrictive" territory if necessary to achieve price stability, Mr. Powell told a conference of economists on March 21.

Bond yields shot higher in the wake of Mr. Powell's tough talk as expectations mounted of more rapid tightening by the Fed. The yield on the two-year Treasury note ended around 2.29% on Friday, up sharply from 1.94% a week earlier.

Perhaps not surprisingly, policy makers see themselves pulling off a smooth soft landing of the high-flying economy. Growth slows, but remains above trend, according to their median forecast released on March 16. Unemployment falls to 3.5% from 3.8% now before basically holding steady through 2024. Inflation on the Fed's favored measure drops to 2.3% by the end of 2024 from 6.1% in January.

Grant Thornton chief economist Diane Swonk said that it's "fanciful" for the Fed not to expect unemployment to rise as it tightens credit. She forecasts joblessness will increase to 4.8% by the end of next year as the economy slows markedly but avoids a recession.

Mr. Krugman told reporters last week that he sees unemployment increasing by about a half percentage point as growth downshifts to an annual pace of around 1%. Gross domestic product expanded 5.7% last year, the most since 1984.

But avoiding an outright contraction is far from a sure thing. A historical study by former Treasury Secretary Lawrence Summers and Harvard University research associate Alex Domash found "a very substantial likelihood of recession" over the next 24 months, given the current configuration of elevated inflation and low unemploy whether the US falls into a recession may well depend on how far the Fed wants to reduce inflation and how much it thinks it needs to raise interest rates to accomplish that. Mr. Krugman foresees a "ferocious debate" next year as core inflation falls to about 3% from 5.2% now and the Fed has to decide whether it's worth risking a recession to push it down further.

"Should the Fed just declare victory and stop?" Mr. Krugman asked. "I'd be inclined to be on the side that would say, 'Yes.'"

Ethan Harris, head of global economics research at Bank of America Corp., sees the central bank engineering a growth recession next year that brings inflation down to 2.6% and modestly pushes up unemployment.

But he added, "To me that is at the optimistic end of outcomes. The main risks are to the downside." — ***Bloomberg***

China oil giant plans record spending on energy security push

SINOPEC will spend record amounts this year to increase oil and gas drilling as China aims to bolster its energy security and insulate itself from volatile global commodity markets.

China Petroleum & Chemical Corp., as it's officially known, will increase capital expenditure 18% to 198 billion yuan ($31 billion), including a 22% boost in drilling, it said in its annual report Sunday.

Shares rose as much as 4.9% in Hong Kong on Monday, extending a rebound from a bottom earlier this month to more than 16%.

SPENDING SPREE

"The company will redouble its efforts in exploration, especially in shale oil and shale gas," Sinopec said in the report.

The announced increase comes just weeks after China's leaders made it clear the nation's top energy priority this year is securing fuel supplies. The world's biggest energy importer is trying to prevent soaring costs of oil, gas and coal from derailing efforts to keep its economy on a stable footing.

Sinopec is the first of China's three state-owned oil majors to announce earnings, and the spending boost could augur similar actions from competitors. Cnooc Ltd. reports Wednesday, while PetroChina Co. files on Thursday.

Cnooc said in January it planned a modest increase in spending this year, but that was before Russia's invasion of Ukraine sent energy prices to stratospheric heights.

Sinopec is best known for its oil refining business, but has had success in recent years drilling for natural gas in China's hard-to-crack shale fields. The company aims to increase gas output by 4.8% this year after a 12% jump last year.

Annual net income for 2021 rose to 72 billion yuan from 33.4 billion yuan a year earlier, as Sinopec's core refining business experienced a strong recovery on a rebound for travel and freight. That compares with an estimate of 70 billion yuan from analysts surveyed by Bloomberg.

China's economy has been challenged so far this year, and oil processing has declined on concerns over lower demand as the country grapples with a resurgence in COVID-19 cases. — ***Bloomberg***

BSP,
from S1/1

It said it now expects inflation this year to reach 4.5% from 3.7% previously. This is beyond the 2-4% target and BSP's 4.3% outlook.

Headline inflation was stable at 3% in the first two months of the year.

March inflation data, which will likely reflect the impact of the war in Ukraine on oil and commodity prices, will be released on April 5.

Against the backdrop of inflation risks, Fitch Solutions said a stronger economic recovery should strengthen the case for the BSP to start unwinding its accommodative policy. It maintained its growth projection for the year at 6.5%, which is below the 7-9% target of the government.

"Although downside risks are rising due to rising geopolitical tensions in Europe and resurgence of coronavirus disease 2019 (COVID-19) waves in some countries, we believe the recovery remains largely on track with the continued easing of remaining mobility and border restrictions," it said.

To ensure a more sustainable recovery, Mr. Diokno has said they would remain patient and wait until the second half of the year before assessing the need for a rate hike.

The BSP's next policy review is scheduled on May 19. — **Luz Wendy T. Noble**

Office space,
from S1/1

LPC said the price of lots in Ayala Alabang surged 58% to P200,000 per sq.m., while San Lorenzo, Greenhills and Valle Verde land values also increased by 19%, 14% and 13%, respectively.

"Capital values for luxury projects have continued to grow despite the economic downturn which shows the strong capital preservation of these assets," it said.

Residential units in key districts have also seen an increase in their capital values in the first quarter of 2022, and are now back to pre-pandemic levels.

LPC said Rockwell South in Calamba was launched in 2019 at P35,000 per sq.m. and is now at P53,100 per sq.m. It noted Ayala Land launched Ciela at Aera Heights in Carmona, Cavite last year, and the land value has now gone up 6% to P52,300 per sq.m. — **Luisa Maria Jacinta C. Jocson**

PSE,
from S1/1

To be included in the MidCap index, firms should have been listed for at least 12 months and have a free float of at least 15% of its outstanding shares. They should be among the top 35% in terms of median daily trade per month in nine out of the 12-month review period, while market capitalization should be among the top 95% of the cumulative market cap of eligible companies.

"Companies in the MidCap index may be viewed as a middle ground in terms of smaller- and larger-capitalized corporates," the PSE said in a fact sheet provided to the media.

Meanwhile, the PSE Dividend Yield (DivY) index includes 20 companies selected based on liquidity and three-year average dividend performance.

Twenty firms with the largest three-year average dividend yield, and met the free float and liquidity requirements will be included in the DivY index.

The DivY index is comprised of Aboitiz Equity Ventures, Inc.; Aboitiz Power Corp.; AREIT; Bank of the Philippine Islands; DMCI Holdings; D&L; Globe Telecom, Inc.; GMA Network, Inc.; International Container Terminal Services, Inc.; LT Group, Inc.; Metropolitan Bank & Trust Co.; Manila Electric Co.; Metro Pacific Investments Corp.; Nickel Asia; Robinsons Land Corp.; Robinsons Retail; Semirara; Security Bank Corp., PLDT, Inc.; and Universal Robina Corp.

"The PSE Dividend Yield index will create a proper benchmark for existing dividend-based mutual funds and unit investment trust funds (UITFs). Currently, the performance of these funds are compared with the PSEi because the stock market does not have a dividend index to match it to," PSE's Mr. Monzon said.

Analysts said that the two new indices will be useful for people who want to have more focused investments.

"Not all are geared to invest in large caps, as some would like to see how mid-caps and dividend plays are doing as they move to check out available alternatives. These new indices could provide good avenues to make such reviews. If such indices can one day be watched over and participated by other fund managers, it could add volume action, as well as volatility, to these new subindex groups," COL Financial Group, Inc. Chief Technical Analyst Juanis G. Barredo said in a Viber message.

Timson Securities, Inc. trader Darren Blaine T. Pangan said in a Viber message that investors can use these new indices as a tool to "more appropriately gauge the market as well as certain baskets of issues."

"Market participants would be able to compare how indices have performed against one another, as well as how the indices have unfolded through time," Mr. Pangan added.

On Monday, the MidCap index opened at 1,195.10, and closed 0.03% up at 1,195.49. The DivY index opened at 1,708.56, and ended the session 0.03% lower at 1,708.00.

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