Greater China – Week in Review

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Highlights

China's October economic indicators and credit data were mostly weaker than expectation. The demand side of the story remained disappointed. Infrastructure investment failed to pick up despite previous easing. This showed that funding remained one of the key constraints.

On the positive note, the rebound of manufacturing investment showed that manufacturing sector may bottom out soon.

China announced more counter cyclical measures last week to support the growth. The capital requirement for infrastructure investment will be lowered for the first time since September 2015. Meanwhile, company will also be allowed to use equity products to raise money for capital, which is expected to alleviate the funding pressure for infrastructure investment. We expect China's infrastructure investment growth to rebound gradually to above 5% by the end of the year.

On consumption, the NDRC is working towards removing restriction on car sales. Meanwhile, it will also design the polices to boost the upgrade demand for electronic products.

PBoC surprised the market with CNY200 billion liquidity injection via 1-year MLF on Friday after suspending open market operation for 15 working days. The MLF injection showed that PBoC remained flexible to keep the money market volatility in check after 7-day repo market rate rose broke 3% due to the peak of tax payment.

On monetary policy, China's central bank published the 3Q monetary policy report. The outlook of China's monetary policy can be summarized in three P including proper management of the floodgate of money supply, precise liquidity management via targeted measures and following its own pace less affected by the global situations.

Externally, China's Vice Premier Liu He held another phone call with his US counterparty Lighthizer and Mnuchin on 16 Nov. The phone call was described as constructive by China side. In Chinese narrative, the constructive means the gap remained for both sides to fill.

For this week, market will closely watch the November LPR fixing, which is expected to fall by 5bps, as well as the progress of trade talk.

In **Hong Kong**, GDP contracted by 2.9% yoy in 3Q 2019 in its final reading, registering the first year-on-year decline since 2009. Hong Kong's growth has already contracted by 0.6% for the first three quarters of 2019, in addition to darkening economic outlook, the real GDP forecast for whole 2019 was revised downwardly from -0.1% to -1.3%. HKD rates rose in broad sense, amid tighter HKD liquidity. It might be attributed to some seasonal

factors, including Alibaba’s IPO, upcoming seasonality and concerns over social unrest. Moving forward, we expect that the downtrend of HKD rates might be limited even after the effect of Alibaba’s IPO and month-end to abate, amid other upcoming seasonal factors, concerns over potential risks of capital outflows and uncertain economic outlook and the launches of virtual bank. Therefore, 1-month and 3-month HIBOR might continue to stand above 2% in the near term. In Macau, GDP contracted for the third consecutive quarter by 4.5% yoy in 3Q 2019. This was mainly driven by the decline in exports of services, amid the slowdown in the city’s gaming industry. Moving forward, we expect that the economic downtrend of Macau is likely to persist. We downgrade our 2019 GDP forecast to -3%. On housing sector, we expect the housing market of Macau will likely continue to slow down in the coming months. The housing prices (+2.2% YTD as of September) may drop by 1.5% yoy by end of this year. In the longer term, the housing market correction might be limited due to housing supply shortage.

Key Events and Market Talk	
Facts	**OCBC Opinions**
▪ China's central bank published its 3Q monetary policy report over the weekend.	▪ In its latest monetary policy report, China's central bank said although factors to support the stable growth have emerged, the downside risks for growth continued to strengthen against the backdrop of rising global uncertainties. As such, PBoC will remain alert to the risks to the growth. ▪ On inflation, PBoC reckon the structural pressure for higher CPI as well as the divergent trend between CPI and PPI. However, given non-food CPI remained stable, PBoC was not concerned about the CPI for now. As such, the central bank argued that there is no basis for sustainable inflationary pressure and deflationary pressure. ▪ On monetary policy, the outlook of China's monetary policy can be summarized in three P including proper, precise and pace. First, China will continue its proper management of the floodgate of money to match the money supply growth with nominal GDP growth. As such, PBoC is expected to remain flexible the maintain China's liquidity stable at a reasonable level. Second, precise liquidity management is still preferred under China's prudent monetary policy framework. As such, China is likely to continue its targeted measures such as targeted RRR cut to support the real economy in particular the smaller companies. Third, despite the re-start of global easing cycle, China is unlikely to be influenced by peer pressure and will keep its own pace to balance between growth and risk management.
▪ China's Vice Premier Liu He held another phone call with his US counterparty Lighthizer and Mnuchin on 16 Nov. The phone call was described as constructive by China side.	▪ The meeting in October between Liu He and Lighthizer was also described as constructive. Clearly, the constructive exchange has been much longer than previously expected. It showed the gap between both sides have not been filled yet, which may prolong the phase one negotiation.
▪ PBoC surprised the market with CNY200 billion liquidity injection via 1-year MLF on Friday after suspending open market operation for 15 working days.	▪ Although the interest rate for MLF was kept unchanged, the MLF injection showed that PBoC remained flexible to keep the money market volatility in check after 7-day repo market rate rose broke 3% due to the peak of tax payment. We think the RRR cut remained an option in the coming months to support the funding demand from the real economy. ▪ We expect the upcoming LPR fixing on 20 Nov to decline as a result of CNY600 billion MLF injection this month.
▪ In its regular State Council meeting, China announced to lower the capital requirement for some infrastructure projects by no more than 5%.	▪ This was the first capital reduction since September 2015. The recent sluggish infrastructure investment growth showed the constraints of the funding side. ▪ Meanwhile, company will also be allowed to use equity products to raise money for capital, which is expected to alleviate the funding pressure for infrastructure investment. We expect China's infrastructure investment growth to rebound gradually to above 5% by the end of the year.
▪ China's economic planning agency NDRC said it will roll out more measures to support traditional consumption such as car consumption.	▪ The NDRC is working towards removing restriction on car sales. Meanwhile, it will also design the polices to boost the upgrade demand for electronics.
▪ USDHKD spot retraced to the level below 7.83 last week. HKD rates rose in broad sense, amid tighter	▪ Tighter HKD liquidity might be attributed to some seasonal factors. Firstly, it was reported that the retail book of Alibaba,

HKD liquidity. Specifically, 1-month and 3-month HIBOR jumped to 2.7514% (the strongest level since early July) and 2.4269% (the highest level since early August) respectively on 14 Nov.	aiming to raise more than USD 13 billion, started from 15 Nov to 20 Nov (The first trading day will be on the 26th Nov), market prepared for the liquidity lock-up amid the IPO activities. Secondly, market players hovered money in anticipation of upcoming seasonality, including month-end and year-end. Meanwhile, with the persistent social unrest in HK and rapid clashes between police and protestors last week, it intensified market's concerns over potential risks of capital outflows and worsening outlook. As such, it has been observed that the back-end tenors were supported due to some USDHKD outright interests expressing the view of further deteriorating in HK's outlook. ▪ Moving forward, we expect that the downtrend of HKD rates might be limited even after the effect of Alibaba's IPO and month-end to abate, amid other upcoming seasonal factors (including year-end and Chinese New Year Holiday next January), concerns over potential risks of capital outflows and uncertain economic outlook and the launches of virtual bank late this year or early next year Therefore, 1-month and 3-month HIBOR might continue to stand above 2% in the near term and USDHKD spot might trade within the range of 7.82-7.84.

Key Economic News	
Facts	**OCBC Opinions**
▪ All three major economic indicators slowed down in October. ▪ Industrial production slowed down to 4.7% yoy from 5.8% yoy. Fixed asset investment also decelerated to 5.2% yoy for the first ten months. Retail sales slowed down to 7.2% yoy from 7.8% yoy.	▪ On supply side, the weakening industrial production was partially driven by slowing mining production and manufacturing production. ▪ On demand side, both property investment and infrastructure investment growth decelerated further. On the positive note, investment in manufacturing sector recovered slightly, in line with our view that manufacturing sector may bottom out soon. The deceleration of retail sales was probably due to the delay of consumption ahead of single's day promotion in November. ▪ Looking ahead, with China rolled out more counter cyclical measures such as the reduction of capital requirement for infrastructure investment, we expect infrastructure investment to reaccelerate in the coming months. Although property investment is expected to slow down further, the stabilization of manufacturing investment shows that the Chinese economy may find its bottom soon. We still expect a 6% growth for 4Q.
▪ China's credit expansion slowed in October. New Yuan loan increased by CNY661.3 billion, down from CNY1.69 trillion in September. ▪ Aggregate social financing only rose by CNY618.9 billion in October.	▪ The slowing credit expansion was partly due to seasonal pattern as October data usually halved the September data due to golden week holiday and quarter-end effect. However, medium- and long-term loan as % of total loan increased to 87.8% in October, signalling that loan demand remained resilient. ▪ Off-balance sheet lending continued to shrink with entrusted loan, trust loan and banker's acceptance fell by CNY66.7 billion, CNY62.4 billion and CNY105.3 billion respectively.

▪ In its final reading, HK's GDP contracted by 2.9% yoy in 3Q 2019, registering the first year-on-year decline since 2009. In terms of seasonally adjusted quarter-to-quarter comparison, real GDP dropped by 3.2% significantly. Suggested by the government, as the GDP has already contracted by 0.6% for the first three quarters of 2019, in addition to darkening economic outlook, the real GDP for whole 2019 forecast was revised downwardly from -0.1% to -1.3%.	▪ Externally, affected by sluggish external demand and prolonged US-China trade war risks, the exports of goods dropped by 7.1% yoy. Due to the lingering social unrest since June, which harmed the inbound tourism and retail sector, the decline of exports of services deteriorated to -13.8% yoy, the weakest performance since 2003. ▪ From the domestic perspective, private consumption dropped by 3.4% yoy, which is the first year-on-year decrease in more than 10 years. Meanwhile, fixed capital investment dropped by 16.3% significantly. It might be attributed to the concerns over uncertain economic outlook, trade war fears and continued social unrest denting the consumption and investment sentiments. ▪ Moving forward, since August, the government has rolled out more than HK$20 billion worth of off-cycle relief measures to help the households, SMEs and sectors that have been grappling with the persistent protests. This combined with a low base for 4Q, reduction in global risks as well as global monetary easing may allow 4Q's economic contraction to be milder than in 3Q. However, unless trade war and the protests come to an end, the economic growth may not be able to reverse the downtrend any time soon as trade, retail, catering, tourism, hotel and transport sectors would likely remain weak while consumer and investment sentiment may remain sour. Overall speaking, we expect a full-year recession now looks inevitable for 2019.
▪ Macau's GDP contracted for the third consecutive quarter by 4.5% yoy in 3Q 2019, which continued to suffer from economic recession.	▪ This was mainly driven by the decline in exports of services (representing 81% of total GDP), amid the slowdown in the city's gaming industry. The exports of services dropped for the third consecutive quarter by 4.7% yoy sharply. Meanwhile, the fixed capital formation continued to edge lower by 8.5% yoy. Specifically, the private investment plunged by 21.9% yoy. It might be attributed to the lack of new mega entertainment projects under construction. Nevertheless, public investment rebounded by 84.3% yoy significantly, which helped to relieve the downside pressure of fixed capital investment partly. Furthermore, as the external demand remined weak, the exports of goods grew by 0.5% yoy merely. On the positive note, the private consumption increased by 2.8% yoy. Nevertheless, the consumption sentiment is expected to be prudent amid rising concerns over uncertain economic outlook and redundancy. ▪ Moving forward, we expect that the economic downtrend of Macau is likely to persist. Firstly, amid stronger MOP, China and Asia's economic slowdown and negative spill-over effect of HK's social unrest, the gaming and tourism industries might continue to be affected, which is likely to drag down the exports of services. Secondly, bleak economic outlook coupled with trade war fears might dent consumption and investment sentiments. Thirdly, due to the lack of mega infrastructure projects and entertainment projects under construction, the growth of fixed investment might be limited. Overall speaking, we downgrade 2019 GDP forecast to -3%.
▪ Macau's average housing price decreased by 3.2%	▪ The data showed that the housing market of Macau has

yoy (+1.2% mom) to MOP 103,436/square meter in September. Despite that, approved new residential mortgage loans dropped by the eighth consecutive month by 61.5% yoy to MOP3.72 billion in September while the housing transaction edged lower for the fourth consecutive month to 550 deals during the same period.	continued to slow down, despite housing price picking up slightly in terms of month-on-month comparison. It might be attributed to some unfavourable factors, including rising concerns over bleak economic outlook and retrenchment, negative spill-over effects from HK's social unrest and easing wealth effects amid volatile financial market. Meanwhile, the housing control measures continued to trim speculative demand as local home buyers holding more than one property represented only 2.71% of total local buyers. Supportive measures for first-home local buyers remained the major drive of the housing market, which took over 81% of total local home buyers in September. Moving forward, we expect the housing market of Macau will likely continue to slow down in the coming months. The housing prices (+2.2% YTD as of September) may drop by 1.5% yoy by end of this year. ▪ In the longer term, the housing market correction might be limited. In terms of supply, the housing start continued to drop by 79% yoy to 311 units for the first three quarters, meaning that the imbalance of housing demand and supply might persist. Nevertheless, on the positive note, housing completion increased by 1850 units in September, which might relieve the housing pressure partly in the near term. We will still closely watch what the new government will do to ease the housing supply shortage.

RMB	
Facts	**OCBC Opinions**
▪ The USDCNY consolidated above 7 last week waiting for more clarity from the trade talk.	▪ RMB's near term outlook will mainly depend on the progress of trade talk as well as the amount of rollback of existing tariff.

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