Greater China – Week in Review

25 November 2019

Highlights

Tommy Xie
Xied@ocbc.com

Carie Li
Carierli@ocbcwh.com

Dick Yu
Dicksnyu@ocbcwh.com

The Chinese market started last week with a risk-on mode. Both equity and bond market rallied together for two consecutive days on the back of easing monetary policy. China lowered its LPR fixing as expected after unexpectedly cutting the 7-day reverse repo in its open market operation, the first cut in four years.

However, the risk sentiment was reversed from Wednesday after the US Senate passed the Hong Kong Human Rights bill, which complicate the trade talk. The direct impact of Hong Kong Human Rights bill on Hong Kong and China could be limited given the US is unlikely to change Hong Kong's special status any time soon. Nevertheless, market was concerned that China's retaliation may lower the odds of reaching a trade deal.

RMB weakened slightly last week as a result of lack of progress in trade deal. However, as it is difficult to price in this digital risk at the current stage, market is unwilling to push the price aggressively.

Looking ahead, counter cyclical measures will be the key words in China's policy framework to support the growth. On monetary policy front, China may continue its window guidance as part of counter cyclical measures to boost the credit growth. In addition, we think China will not hesitant to further cut its interbank lending costs to lower the funding costs.

PBoC advisor Ma Jun's comments that local government should have space to tailor property policies to the local situation caught market attention. Together with the 5-year LPR fixing rate cut, it also led to questions whether China may fine tune its property tightening measures.

On data, China's National Bureau of Statistics completed its fourth national economic census. The nominal GDP in 2018 was revised up by CNY1.9 trillion or 2.1% to CNY91.93 trillion. Although China's national economic census usually focuses on economic structure, market tends to pay more attentions to the real growth revision, which could be due in December.

In addition, China unveiled the detailed guideline to protect the intellectual property rights. China aims to increase the satisfactory level of IP protection to a high degree by 2025.

In **Hong Kong,** the anti-establishment movement won the public support with a landslide victory in local district council election. The victory may re-energize the campaign to force the HK government to come out more political solutions, which may give the city a break from those violent disruptions. On economic data, jobless rate rose to 3.1% during the period from Aug 2019 to Oct 2019, an unseen level since Oct 2017. Specifically, the unemployment rate of retail, accommodation and food services sector edged up to 5%, the highest level since early 2017. The prolonged social unrest has hit hard on the retail, hotel and catering sectors, in turns weakening the hiring sentiments. Moving forward, we do not rule out the possibility that unemployment rate may rise further in the coming months. The Hong Kong Human Rights and Democracy Act (Senate's Version) is waiting for President Trump to sign into law. The short-term impacts of the Bill on HK economy might be limited. Nevertheless, we will keep monitor whether it will induce chain effects to prompt the alliances of US, including UK, EU, Canada and Japan…, to review the relations with Hong Kong. In **Macau,** the number of visitor arrivals increased by 1.76% yoy to 3,209,751 in October, due to Golden Week holiday. In a nutshell, we expect same-day visitors to sustain strong growth in the coming months. However, the growth of total visitor arrivals may remain moderate due to China's economic slowdown, a strong MOP and spill-over effect of Hong Kong's social unrest. This may feed through to restaurant, retail and gaming sectors.

Key Events and Market Talk	
Facts	**OCBC Opinions**
▪ PBoC cut its 7-day reverse repo rate by 5bps on 18 Nov, first cut since October 2015.	▪ The recent rate cut in both regular open market operation and MLF as well as surprising liquidity injection via 1-year MLF last week showed that China has stepped up its counter cyclical measures. ▪ Although China has reiterated its prudent monetary policy framework, the increasing reliance on counter cyclical measures to support the funding demand from the real economy suggests that PBoC will remain flexible on monetary policy. As such, we expect more easings in form of RRR cut or further OMO rate cut. However, we are still not convinced yet that China has entered the rate cut cycle. .
▪ China reduced both 1-year and 5-year LPR fixing by 5bps in November.	▪ The 5bps cut for 1-year LPR is in line with market expectation. Nevertheless, market has paid more attentions to 5bp rate cut on 5-year LPR fixing, which has been kept intact for the past two months as market usually takes 5-year rate as official attitude towards the property market. ▪ Just after PBoC removed the phrase “housing is for living not for speculation” in its latest monetary policy report, the 5-bps cut in 5-year LPR gave market hopes that China may loosen its grip on property market to remove the tail risk for the economy.
▪ PBoC Governor Yi Gang said last week that China will further step up its counter cyclical measures to support the real economy. This was also echoed by PBoC advisor Ma Jun, who also said local government should have space to tailor property policies to the local situation. ▪ Meanwhile, PBoC also held the meeting with CEOs from big Chinese banks to boost the credit support to bring down the funding costs.	▪ Against the backdrop of global uncertainty and China’s prudent monetary policy framework, counter cyclical measures will be the key words in China’s policy framework to support the growth. ▪ Fiscal is likely to be the key focus going forwards via higher quota for local government special bond. On monetary policy front, China may continue its window guidance as part of counter cyclical measures to boost the credit growth. However, we think China will not hesitant to further cut its interbank lending costs to lower the funding costs.
▪ On the progress of trade talk, President Trump said last week that China wasn’t stepping up to the level that I want on Wednesday. ▪ China’s Vice Premier Liu He said he was cautiously optimistic about a deal on Thursday. ▪ China’s President Xi said that China wants to work for a phase one agreement on the basis of mutual respect and equality.	▪ Although the trade negotiation may be complicated by the Hong Kong Human Rights bill passed by the US Congress, we still expect both sides to reach a phase one deal as both sides have shown good gesture.
▪ China unveiled the detailed guideline to protect the intellectual property rights.	▪ The guideline covers seven areas including overall target, policy direction including law enforcement, public supervision, cooperation, international communication and cooperation, infrastructure to support the protection of intellectual property and implementation. ▪ According to the guideline, China aims to increase the satisfactory level of IP protection to a high degree by 2025. China will increase penalties on violation of IP protection including higher fines as well as more severe criminal charge.
▪ USDHKD spot traded below 7.83 last week. HKD rates retraced after the effect of Alibaba’s IPO. Notably, 1-month HIBOR fixing dropped for the	▪ Moving forward, we expect that the HKD rates might continue to edge lower slightly after the effect of Alibaba’s IPO. Nevertheless, the decline of HKD rates might be capped,

sixth consecutive trading day to 2.1153% from 15 Nov to 22 Nov. Meanwhile, despite the prolonged social unrest in Hong Kong, the market sentiment seemed to be less affected, with the Hang Seng Index still increasing by 0.5% to 26595 during the week from 18 Nov to 22 Nov.	especially for those shorter-end tenors (1-week to 1-month). Amid the approaching month-end factor and year-end factor in December, the front-end HKD liquidity might tighten again as market players hover money to prepare for the upcoming seasonality. In addition to the launches of virtual bank (may be late this year or early next year) and concerns over uncertain HK's outlook, the HKD rates might keep a relatively elevated trend. In the nutshell, 1-month HIBOR and 3-month HIBOR might find strong support at 2% and 2.1% respectively in the near term. USDHKD spot might continue to trade within the range of 7.82- 7.84.
▪ The Hong Kong Human Rights and Democracy Act (Senate's Version) passed the US House of Representatives by 417 to 1, one day after the Senate unanimously passed the bill. The bill will be sent to President Trump, who needs to decide within 10 days whether he wants to veto or sign into the law.	▪ There will be three major possibilities: 1) Should President Trump veto the HK bill, with sufficient justification provided, the bill will be sent back to Congress. The chambers can attempt to override the veto by a vote of two-thirds of those present. Given the bill has been passed almost unanimously, the Congress could be able to override Trump's veto. 2) If Congress adjourns before the 10 days and the President has not signed the bill then it does not become law ("Pocket Veto.") 3) A bill becomes law if signed by the President or if not signed within 10 days and Congress is in session. According to recent reports, President Trump is expected to sign the bill passed by the Congress despite that China expressed strong disagreement over the issues related to Hong Kong. ▪ Under the current Senate bill, US Secretary of State would have to submit report at least once a year to certify whether Hong Kong retains enough autonomy to qualify for special US trading status that bolsters its role as an international financial centre. Meanwhile, the bill would require sanctions (including frozen asset and entrance prohibited) against those individuals or officials who are responsible for human rights violations in Hong Kong. ▪ The short-term impacts of the Bill on HK economy might be limited. We expect that even if the HK bills are enacted by President, the resultant review of the extent of HK's autonomy by US Secretary of State may not lead to any drastic change to HK's special trading status as this could jeopardize the improvement in the US-China relationship. Nevertheless, we will keep monitor whether it will induce chain effects to prompt the alliances of US, including UK, EU, Canada and Japan…, to review the relations with Hong Kong. In fact, it was reported that UK will impose " UK's Magnitsky Act" after Brexit, which is an Act to punish those individuals or officials who are responsible for human rights violations.

Key Economic News	
Facts	**OCBC Opinions**
▪ China's National Bureau of Statistics completed its fourth national economic census. The nominal GDP in 2018 was revised up by CNY1.9 trillion or 2.1% to CNY91.93 trillion. The share of tertiary industry in	▪ China's national economic census has been conducted every five years in the year ending with 3 or 8. The fourth census kicked off in 2018. 1.6 million staffs and volunteers participated in the work and interviewed more than 100

2018 was also revised up by 1.1% to 53.3% while share of primary and secondary industries were lowered down by 0.2% and 1% respectively to 7% and 39.7%. ▪ The real GDP growth revision for the past years has not been released yet, which could be published in December.	million working populations to have a more comprehensive understanding of China's latest economic structure. ▪ Although China's national economic census usually focuses on economic structure, market tends to pay more attentions to the growth revision. As 2020 will be the last year for China to achieve its previous target to double its national income by 2020 from levels in 2010, the conventional wisdom suggests that China still need to grow by about 6.2% yoy in 2020 to meet the target should Chinese economy grow by 6.1% yoy in 2019 as expected. However, an upward revision for the past five years will help alleviate the pressure to meet its target via faster growth in 2020. ▪ In the third national economic census, average growth for 2009-2013 period was revised up by 0.1% yoy. Market will watch whether the latest census will lead to similar magnitude of revision.
▪ Hong Kong's jobless rate rose to 3.1% during the period from Aug 2019 to Oct 2019, an unseen level since Oct 2017.	▪ Specifically, the unemployment rate of retail, accommodation and food services sector edged up to 5%, the highest level since early 2017. The prolonged social unrest has hit hard on the retail, hotel and catering sectors, in turns weakening the hiring sentiments. Meanwhile, the unemployment rate of financial sector increased to 2.2%, Due to lingering both domestic and external headwinds, concerns over uncertain economic outlook caused the hiring activities to become more prudent. On the positive note, the unemployment rate of trade sector decreased to 2.3%. Market's optimism over the phrase 1 trade deal achieved by US and China in the near term might help to restore the investment and business sentiments partially, in turns increasing labour demand. ▪ Moving forward, we do not rule out the possibility that unemployment rate may rise further in the coming months. Firstly, as social unrest shows no sign of termination, the business environment for tourism, retail, hotel and catering sectors is likely to worsen further with their unemployment rate to continue going up. Secondly, amid lingering uncertainties over trade war fears, the employment situation of trade sector might continue to be fragile. Thirdly, the overall labour demand of Hong Kong might remain sour, due to rising concerns over darkening economic outlook.
▪ In Macau: The number of visitor arrivals increased by 1.76% yoy to 3,209,751 in October, due to Golden Week holiday. Specifically, same-day visitors (8.13% yoy) remained the major source of growth in October while the overnight visitors dropped by 4.84% yoy to 1,474,919 during the same period, registering the third consecutive month year-on-year decline. As the percentage share of same-day visitors in total visitors rebounded to 54% notably from 50.2% in September, the average length of stay decreased by 0.1 day to 1.2 days.	▪ Delving into details, by the place of residence, the growth of visitors from Hong Kong remained resilient with a year-on-year growth by 11.5% while the growth of visitors from China decelerated to 1.5% yoy. Meanwhile, visitor arrivals by land continued to increase by 21.6% yoy with more than 14% travelling via Hong Kong-Zhuhai-Macau Bridge. ▪ Suggested by the data, amid the infrastructure improvement, the inbound tourism of Macau was continued to be supported, with persistently strong growth of same-day visitors observed. Meanwhile, affected by prolonged social unrest in Hong Kong, parts of travelers have transferred to visit Macau. Nevertheless, due to high accommodation costs and lack of new entertainment projects, it continued to dent the incentives for the visitors to stay overnight. ▪ In a nutshell, we expect same-day visitors to sustain strong

	growth in the coming months. However, the growth of total visitor arrivals may remain moderate due to China's economic slowdown, a strong MOP and spill-over effect of Hong Kong's social unrest. This may feed through to restaurant, retail and gaming sectors.

RMB	
Facts	**OCBC Opinions**
▪ RMB weakened slightly against both dollar and major trading partners last week.	▪ The weakness was mainly due to concerns about the trade deal, which was complicated by the Hong Kong Human Rights bill passed by the US Congress. ▪ However, as it is difficult to price in this digital risk at the current stage, market is unwilling to push the price aggressively.

Treasury Research & Strategy

OCBC Greater China Research

Tommy Xie
Xied@ocbc.com

Carie Li
Carierli@ocbcwh.com

Co.Reg.no.:193200032W