Greater China – Week in Review

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Highlights

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There are marginal positive headlines on US-China trade talk during the weekday. However, market remained cautious last week as market has learned the lesson in hard way that sentiment can turn very fast before both sides signed the deal officially.

The phone call on Friday between Liu He and Lighthizer and Munchin is likely to reinforce the optimism that a phase one deal is around the corner. We expect market to gradually price in a trade deal this week, which may send the USDCNY to test 7.

Domestically, the decline of industrial profit in September widened, driven by the weak industrial profits in manufacturing sector. The October LPR fixing was kept unchanged as banks failed to narrow the credit spread further. As such, we think the chance of RRR cut this year remains to help banks narrow the credit spread. However, the probability of outright MLF rate cut is low due to the constraints of higher headline inflation, which is expected to test 4% in January 2020 driven by pork prices.

The delay of TMLF last week was probably due to the golden week holiday. We expect the TMLF to be conducted this week. Market will watch out for the size and price of TMLF. In addition, China also confirmed that the fourth plenum session of 19th Congress will be held from 28-31 Oct.

In Hong Kong, last week the government announced HK$2.1 billion worth of relief measures to support the transportation and tourism sectors which have been hit hard by the persistent protests. The government expects this coupled with the relief measures (worth HK$19.1 billion) unveiled in August and those (worth HK$42.87 billion) announced in February's 2019/20 Budget will boost the economy by 2 percent. Though the measures may not be able to reverse the downtrend of economic growth, they combined with the positive development of US-China trade war, global monetary easing and the low base for 4Q may help lower the risk of Hong Kong seeing a full-year recession in 2019. This week, 3Q GDP will be out. We expect the economy to contract by 0.1% yoy and slip into a technical recession in 3Q. **On trade sector,** the further weakness could be attributed to four factors. First, high base amid front-loading activities during last September. Second, tariff hike by both US and China from 1st September. Third, weakening electronic supply chain of Asia on prolonged trade war. Fourth, soft internal and external demand due to global headwinds. Though high base will dissipate from November, trading activities may stay soft due to the latter three negative factors mentioned above. Therefore, we expect exports and imports to see single-digit negative growth in 2019. On a positive note, should US-China trade talks go on well, combined with the low base this year and the global monetary easing, HK's trading activities may rebound moderately in 2020. **On HKD market,** USDHKD broke below 7.8400 as front-end liquidity tightened on IPOs and month-end effect. After short-term factors dissipate, HKD rates may subside. However, should more IPOs return to HK, it may add onto year-end effect, outflow concerns and upcoming virtual bank launches in capping the downside of HKD rates.

Key Events and Market Talk	
Facts	**OCBC Opinions**
▪ There are marginal positive headlines on US-China trade talk during the weekday. ▪ It was reported that China has granted additional 10 million tons tariff free quota for US soybean purchase. The waivers will last through March. ▪ Meanwhile, China's vice Commerce Minister said China and US have achieved some progress in the trade talks. ▪ On Friday night, China's Vice Premier Liu He spoke with Lighthizer and Mnuchin on phone to finalize the phase one agreement.	▪ Market remained cautious last week despite marginal positive headlines on US-China trade talk as market has learned the lesson in hard way that sentiment can turn very fast before the official signature of the deal. ▪ The phone call on Friday is likely to reinforce the optimism that a phase one deal is around the corner.
▪ China's currency regulator SAFE said China will continue its capital account reform and opening. However, there is no detailed time table for the progress of opening. ▪ In addition, China unveiled more measures to ease cross border foreign currency receivable.	▪ China has downplayed the importance of capital account opening. Under the framework of financial stability and macro prudential, China's capital account opening is likely to be more measured.
▪ China's central bank net injected CNY560 billion last week via open market operation. However, LPR was kept unchanged.	▪ As the monthly LPR fixing mainly depends on two factors including MLF interest rate and banks' credit spread. The recent intact of LPR shows there is increasing difficulty to narrow the banks' credit spread. As such, the chance of RRR cut remains. However, the probability of outright MLF rate cut is low due to constraints of higher headline inflation, which is expected to test 4% in January 2020 driven by pork prices. ▪ The delay of TMLF last week was probably due to the golden week holiday. We expect the TMLF to be conducted this week.
▪ Hong Kong government announced HK$2 billion worth of off-cycle relief measures on 22nd October to support the transportation and tourism sectors which have been hit hard by the persistent protests.	▪ Firstly, the government will subsidise the fuel costs for six months which will cost HK$1.365 billion. For the taxi and red minibuses, the government will provide a subsidy of HK$1 per litre of liquefied petroleum gas. For the public franchised buses, green minibuses and trams, the government will subsidise one-third of their fuel costs. For the commercial coaches and ferries, they will be granted a one-off HK$5,000 subsidy. Secondly, the government will give a one-off inspection subsidy for commercial vessels at a cost of HK$16.5 million. Thirdly, a 50% reduction in rent for six months would be extended to tenants at government properties including public car parks, supermarkets and shops. This will cost HK$600 million. ▪ According to the government, the new measures coupled with the relief measures (worth HK$19.1 billion) unveiled in August and those (worth HK$42.87 billion) announced in the 2019/20 Budget would boost the economy by 2 percent. On top of these, the government rolled out HK$100 million worth of additional relief measures to bolster the tourism sector. Specifically, each travel agency will receive up HK$60,000 in cash during this November to next March. This will translate into a cash discounts of HK$100 to every outbound overnight visitor and HK$120 to every inbound overnight tourist, with a cap of 500 guests for each travel agency. ▪ Though all these measures may not be able to reverse the

	downtrend of economic growth, they combined with the positive development of US-China trade war, global monetary easing and the low base for 4Q may help lower the probability of Hong Kong seeing a full-year recession in 2019. ▪ On the other hand, the raft of relief measures would likely lead to the first fiscal deficit since 2003/04 fiscal year for 2019/20 fiscal year. That said, the strong fiscal reserve could still allow the government to continue rolling out relief measures to mitigate the impact of trade war and local social unrest.
▪ ESR Cayman Ltd., an integrated logistics real estate platform, is seeking to raise up to HK$11.4 billion in Hong Kong after suspending its IPO plan in June.	▪ This could become the second largest IPO in Hong Kong so far this year. The company is scheduled to price the IPO on 25th Oct and launch the IPO on 1st Nov. Besides, Ascentage Pharma Group is raising HKS0.4 billion via IPO in Hong Kong on 28th October and its retail book (HK$41.7 million) has been oversubscribed by 751 times. Furthermore, China Mobile Games and Entertainment Group's retail order book (HK$0.13 billion) has been oversubscribed by over 500 times. Its IPO will be launched on 31st October with a size of HK$1.305 billion. ▪ With the large IPOs returning following the rosy performance of Budweiser's stock on improved risk appetite across the globe, front-end HKD liquidity tightened. As we approach month-end, HKD rates may remain elevated. ▪ Moving ahead, HKD rates will likely subside moderately after the IPO and month-end effect. In the meantime, we will continue to monitor the IPO pipelines in the fourth quarter. Should more IPOs return to Hong Kong, it will likely add onto the year-end effect, outflow concerns and upcoming virtual bank launches in capping the downside of the HKD rates over the coming months.
▪ Shanghai Stock Exchange and Shenzhen Stock Exchange announced to include the Weighted Voting Right stocks including Xiaomi and Meituan to the stock connect schemes. As such, southbound investors will be able to access the stock of Xiaomi and Meituan as soon as on 28th October.	▪ As Hang Seng China AH Premium Index refrained from moving higher while MSCI increased the weighting of A-shares in its index, A-shares appeared to have been more attractive than H-shares. As such, southbound equity inflows shrank to HK$9.7 billion in September, the weakest since February. During the same month, northbound equity inflows surged to RMB64.7 billion, the strongest since the stock connect scheme was launched in late 2014. ▪ On a positive note, with stock connect schemes to include Weighted Voting Right shares and global risk appetite improving, we expect to see an increase in southbound equity inflows. As of October, the month-to-date southbound equity flows have registered net inflows of HK$13.6 billion while northbound equity flows marked net inflows of HK$16.5 billion. A more balanced cross-border equity flows will likely ease the downward pressure on the HKD.

Key Economic News	
Facts	**OCBC Opinions**
▪ China's September industrial profit fell by 5.3% yoy, weakened from 2% decline in August.	▪ The weak industrial profit was mainly due to weak profit in manufacturing sector, which fell by 3.9% yoy in the first three quarters widening from 3.2% yoy decline in the first eight

	months. ▪ On the positive note, profit in car industries started to recover. The recent trade truce together with China's support to car sales may help alleviate the pressure faced by manufacturing sectors.
▪ Chinese banks net purchased US$5.814 billion foreign currency on behalf of clients in September.	▪ The willingness to sell foreign currency weakened slightly in September. The widening deficit of sale of foreign currency shows that market remained jittery on the progress of US-China trade talk. We think China's balance of payment position may improve thanks to the positive development of trade talk.
▪ Hong Kong's exports (-7.3% yoy) and imports (-10.3% yoy) dropped for the eleventh and tenth consecutive month respectively in September.	▪ By country, exports to Asia as a whole dropped by 4.5% yoy while those to the US declined 24.3% yoy. Meanwhile, imports to major trading partners other than Taiwan and Vietnam continued to decrease. By commodity, imports of electrical machinery (-6.4% yoy), office machines (-24.8% yoy) and telecommunications (-10.7% yoy) plunged further while the exports of these items also decreased for the fifth, fourth and eleventh consecutive month respectively. ▪ The further weakness in the trading activities could be attributed to four factors. First, high base amid front-loading activities during last September. Second, tariff hike by both US and China from 1st September. Third, weakening electronic supply chain of Asia on prolonged trade war. Fourth, soft internal and external demand due to global headwinds. ▪ As high base will sustain in October, we expect the decline in both imports and exports to remain notable in the month. Though high base will dissipate from November, trading activities may stay soft due to the latter three negative factors mentioned above. Therefore, we expect exports and imports to see single-digit negative growth in 2019. On a positive note, should US-China trade talks go on well after reaching the first-stage trade deal, adding on the low base this year and the global monetary easing, we could expect some moderate rebound in Hong Kong's trading activities in 2020.
▪ Macau: total visitor arrivals grew at a slightly faster pace by 8% yoy in September as visitor arrivals increased by 12.8% yoy during the Mid-Autumn Festival.	▪ Specifically, same-day visitors (20.4% yoy) remained the major growth driver in while overnight visitors decreased for the second consecutive month by 2.3% yoy. As such, the percentage share of same-day visitors in total visitors remained high at 50.2%. By mode of transport, visitor arrivals by land continued to increase by 32.5% yoy with 14% travelling via Hong Kong-Zhuhai-Macau Bridge. This suggests that infrastructure improvement continued to support Macau's same-day tourism. By source of visitors, those from Hong Kong and China increased respectively by 27.2% yoy and 5.7% yoy, mainly due to holiday effect. Persistent protests in Hong Kong might have also encouraged residents in Hong Kong and Mainland travellers to visit Macau instead. ▪ Nevertheless, the prolonged social unrest in Hong Kong has deterred visitors from other major sources including South Korea (-28.6% yoy) and Japan (-15.7% yoy) as foreign tourists normally visit Hong Kong and Macau during the same trip. Overnight tourism might have been hit by a strong MOP, faltering global growth outlook, high accommodation costs

	and the lack of new entertainment projects as well. ▪ Moving into October, inbound tourism may benefit from the Golden Week Holiday (visitor arrivals and Mainland visitors grew by 11.5% yoy and 9.4% yoy respectively) and the infrastructure improvement. That said, tourism growth may remain moderate due to multiple headwinds.

RMB	
Facts	**OCBC Opinions**
▪ RMB consolidated last week. RMB index remained weak trading below 91.	▪ Market remained cautious despite the marginal positive headlines on trade talk. USDCNH broke 7.05 this morning as expectation on phase one deal was reinforced by the phone call on Friday night.

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