OCBC TREASURY RESEARCH

Greater China – Week in Review

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Highlights

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Most of Chinese workers will return to work from this week although there is still no clear sign of turning point of the virus outbreak yet. As the world's largest mask producer, China's capacity for production of medical masks have returned to 87% according to Chinese government.

In the latest Politburo meeting, President Xi said the economic development shall go hand in hand together with fighting the disease though containing the virus is still the top priority now.

China has paid huge costs for fighting the virus. It is the time to think how to strike the balance between economic development and containing the spread of virus. Both fiscal policies and monetary policies started to play their part to escort China through the storm. Premier Li Keqiang said last week in the State Council meeting that China will ensure the funding cost for important companies in healthcare and daily necessity related sector to be lower than 1.6%.

PBoC together with NDRC, Ministry of Finance and other relevant departments unveiled the detailed measures to provide the financial support to fight the disease. Financial institutions will be able to get the funding from the central bank at the cost of 1Y LPR minus 250bp via re-lending. The lending costs to companies will be capped at 1Y LPR minus 100bps. Meanwhile, 50% of interest costs will be subsidised by the fiscal money. It is the first time for re-lending to work together with interest subsidy in order to bring down the funding cost to below 1.6%.

On trade war, China announced to halve tariffs on US$75 billion US goods effective from 14 February, the same day that the US will halve the tariff on US$120 billion Chinese imports. The announcement works like a reverse of tit-for-tat we saw in the past two years. It shows China's commitment to implement the phase one trade deal despite the disruptions from the recent virus outbreak. There is rising possibility that China may postpone some of the purchases due to the outbreak of virus. But it is unlikely to be the concern now.

China has given the outbreak of Wuhan Novel Coronavirus a new official name "Novel Coronavirus Pneumonia" (NCP in short). So we will use this acronym going forwards. The development of NCP in China is largely positive.

Here is good news: Total suspected cases have fallen significantly on 9 Feb although total confirmed cases passed 40K. Newly confirmed cases outside Hubei province fell to the lowest since 26 January, signalling no evidence of second wave contagion yet despite the return of migrant workers. Meanwhile, recovery is encouraging. 14.1% patients have been discharged.

However, the bad news is that both percentage of patients in critical illness are fatality rate outside Hubei province rebounded. It is not an easy battle. For details, you may refer to our daily NCP monitor.

It seems that this virus will be with us in the foreseeable future as there is still no effective treatment and vaccine is still in distance according to experts. The current focus shifted to transmission mechanism of this virus. On 8 February, the panic returned after some Chinese experts said the new coronavirus could be transmitted via aerosol other than usual direct contact and droplets. Nevertheless, another expert from China's CDC said on 9 Feb that the coronavirus does not suspend or float in the air for long and there is no evidence of aerosol transmission. Hopefully he is right. But market will continue to consolidate fears triggered by conflicting messages.

The most important thing I care this week other than trying to figure out how the virus is transmitted is whether we are going to see the second wave contagion after the return of migrant workers to factories and offices in tier one and tier two cities.

In Hong Kong, the real GDP dropped by 2.9% yoy in 4Q 2019, after falling for 2.8% yoy in 3Q 2019, amid the sluggish domestic consumption demand and external demand. GDP decreased by 1.2% yoy in the real terms for whole 2019, the first full year decline since 2009. Moving forward, another year-on-year contraction might be inevitable (Forecast: -4.1% yoy) in 1Q 2020. The magnitude of decline will depend on the impacts and the duration of epidemic. Nevertheless, Hong Kong economy is likely to regain growth momentum starting from second half of 2020 on the back of low base effect and the prospect of improving consumption, trade and investment sentiments. Overall speaking, we revise our GDP forecast downwardly from +1.1% yoy to -0.2% yoy for whole 2020. On the positive notes, with tremendous fiscal reserves amounting more than HKD 1.1 trillion, we believe that HK's government has strong capacity to impose more stimulus measures to cap the downside risks during the period of economic downturn. Retail sales continued to plunge by 19.4% yoy in December 2019. For whole 2019, retail sales plummeted by 11.1% yoy, the largest decline since 1998. We expect retail sales to continue showing double-digit year-on-year decline in the coming months. **In Macau,** gaming revenue dropped by 11.3% yoy in January. As Macau government decided to close its 41 casinos for half a month in order to prevent the further spreading of Wuhan coronavirus, we expect that the decline of gaming revenue might deteriorate in the coming months. In addition to faltering economic outlook, the overall labor demand might remain sour. We do not rule out the possibility that the overall unemployment rate might stand above 2% in the coming months.

Key Events and Market Talk	
Facts	**OCBC Opinions**
▪ Premier Li Keqiang said in the State Council meeting that China will ensure the funding cost for important companies to be lower than 1.6%. ▪ PBoC together with NDRC, Ministry of Finance and other relevant departments unveiled the detailed measures to provide the financial support to fight the disease.	▪ Financial institutions will be able to get the funding from the central bank at the cost of 1Y LPR minus 250bp via re-lending. The lending costs to companies will be capped at 1Y LPR minus 100bps. Meanwhile, 50% of interest costs will be subsidised by the fiscal money. ▪ Given the current 1-year LPR is at 4.15%, the loan cost to companies will be capped at 3.15%. With 50% interest subsidies, the real cost to Chinese companies will be capped at 1.575%, meeting Premier Li's target. ▪ It is the first time for re-lending to work together with interest subsidy in order to bring down the funding cost to below 1.6%.
▪ China injected another CNY500 billion liquidity via open market operation on 4 February. In its statement, the central bank exclusively mentioned that the liquidity injection for two consecutive days showed PBoC's commitment to boost market confidence.	▪ The rare statement shows that PBoC will not be reluctant to inject more liquidity to support market sentiment should equity market tumble too much. This is as good as issuing a blank cheque to the market.
▪ China announced to halve tariffs on US$75 billion US goods effective from 14 February, the same day that the US will halve the tariff on US$120 billion Chinese imports.	▪ The announcement works like a reverse of tit-for-tat we saw in the past two years. It shows China's commitment to implement the phase one trade deal despite the disruptions from the recent virus outbreak.

Key Economic News	
Facts	**OCBC Opinions**
▪ Hong Kong's GDP dropped by 2.9% yoy in the real terms in 4Q 2019, compared to the decline of 2.8% yoy (revised from 2.9% yoy) in 3Q 2019, amid the sluggish domestic consumption demand and external demand. GDP decreased by 1.2% yoy in the real terms for whole 2019, the first full year decline since 2009.	▪ Specifically, amid the prolonged local social unrest in 4Q and concerns over weakening economic outlook of Hong Kong, private consumption expenditure dropped for the second quarter and decreased by 3% yoy while fixed investments fell for the fifth consecutive quarter, decelerating further to -16.2% yoy. Meanwhile, the exports of services also took a significant hit (plunged by the most since 1973 by 25% yoy), affected by the sharp decline of visitor arrivals. With the easing US-China trade war risks since October 2019, the decline of the exports and imports of goods narrowed to 2.6% yoy and 7.2% yoy respectively. ▪ Since August 2019, the government has rolled out around HK$35 billion worth of off-cycle relief measures to help the households, SMEs and sectors that have been grappling with the persistent protests. Therefore, government expenditure grew by the most since early 2004 by 6% yoy. ▪ Moving forward, another year-on-year contraction might be inevitable (Forecast: -4.1% yoy) in 1Q 2020, mainly depending on the impacts and the duration of epidemic. Supported by low base effect and the prospect of improving consumption, trade and investment sentiments gradually, Hong Kong economy is likely to regain growth momentum starting from second half of 2020. Overall speaking, we revise our GDP forecast downwardly from +1.1% yoy to -0.2% yoy for whole 2020. On the positive notes, with tremendous fiscal reserves

	amounting more than HKD 1.1 trillion, we believe that HK's government has strong capacity to impose more stimulus measures to relieve the downside risks during the period of economic downturn.
▪ Hong Kong's retail sales continued to plunge by 19.4% yoy in December 2019. For whole 2019, retail sales plummeted by 11.1% yoy, the largest decline since 1998.	▪ Internally, the drop in retail sales of food, alcohol drinks and tobacco narrowed to 1.9% yoy while the retail sales of clothing, footwear and allied products continued to decline by 21.8% yoy. Meanwhile, the retail sales of those of goods in supermarket edged lower by 3.1% yoy. Weak domestic consumption sentiment might be attributed to prolonged social unrest and concerns over faltering outlook of local economy and retrenchment. Externally, the retail sales of jewellery, clocks and watches and goods in department stores continued to drop by 36.7% yoy and 25.3% yoy. As visitor arrivals plunged by 51.5% yoy in December, sluggish visitor spending has dragged down the retail sales of tourism-related sectors. Meanwhile, amid the prolonged local social unrest, the normal operation of shopping malls has been affected occasionally, in turns weakening the retail sales of the goods in department stores. ▪ Moving forward, we expect that retail sales might keep the downtrend in the coming months. Due to the spreading of Wuhan coronavirus, HK's inbound tourism, visitor spending and domestic consumption sentiment might remain muted, which might continue to weight on the performance of retail sales and the business environment of tourism-related industries. We expect retail sales to continue showing double-digit year-on-year decline in the coming months.
▪ HK's PMI picked up to a seven-month high of 46.8 in January 2020.	▪ It might be attributed to easing local social unrest and US-China trade war risks starting from 4Q 2019, improving the business environment. Despite that PMI rebounded in past two months, the data showed that business condition remained sluggish. Due to the local spreading of Wuhan coronavirus in January, the consumption and business sentiments are expected to deteriorate. In addition to the unsettled local social unrest, we do not rule out the possibility that the decline of PMI might be observed in the coming months.
▪ Macau's gaming revenue dropped by 11.3% yoy in January.	▪ The poor gaming performance might be attributed to the impacts of the spreading of Wuhan coronavirus. Affected by the concerns over epidemic, overall visitor arrivals dropped by 69% to 195k (Specifically, Chinese visitors dropped by 83% to 149k from 24 Jan to 30 Jan) during the Chinese New Year holiday, amid the tighter regulations on entry requirement imposed by Macau government. Therefore, the gaming revenue continued to take significant hit. ▪ Moving forward, we expect that visitor arrivals might keep a downtrend in the coming months, mainly affected by the concerns over the spreading of Wuhan coronavirus. As Macau government decided to close its 41 casinos for half a month in order to prevent the further spreading of Wuhan coronavirus, we expect that the decline of gaming revenue might deteriorate in the coming months.
▪ Macau's unemployment rate stabilized at 1.7% in	▪ Specifically, the employed population of construction sector

4Q 2019. Employed population increased from 387,600 to 389,800 while labour force participation rate picked up to 70.2% during the same period.	registered the eighth consecutive three-month period decline and dropped by 0.6% yoy in 4Q 2019, amid lack of new mega projects under construction, weakening the relevant labour demand. Despite the sluggish performance of gaming revenue and visitor arrivals in 4Q 2019, it did not fully reflect the impacts on retail, gaming and hotel & similar activities sectors, with the employed population picking up by 0.7% yoy, 1.8% yoy and 8.6% yoy respectively. ▪ Moving forward, as a lagging indicator, overall unemployment rate is expected to stay below 2% for a little while. Nevertheless, with the concerns over spreading of Wuhan virus and negative spill-over effects driven by Hong Kong's social unrest, the business environment of Macau's gaming and tourism industries might continue to deteriorate, in turns trimming the labor demand of the above-mentioned sectors. In addition to faltering economic outlook, the overall labor demand might remain sour. We do not rule out the possibility that the overall unemployment rate might stand above 2% in the coming months.

RMB	
Facts	**OCBC Opinions**
▪ The USDCNY hovered around 7.	▪ RMB found its near-term balance despite total confirmed cases in the past one week has risen to 40K. The encouraging trend from those data may help cap the upside for the USDCNY in the near term should there is no evidence of second wave contagion in tier one cities.

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