OCBC TREASURY RESEARCH

Greater China – Week in Review

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Highlights

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President Xi set the tone for months ahead that China will strike the balance between fighting the virus and ensuring the stable economic growth. On one hand, China will further step up its efforts to contain the spread of disease in the epicentre of Hubei province via further restricting people movement. For example, Xiaogan, the second most infected cities within Hubei province, instructed all the residents to stay at home. On the other hand, China will try to encourage companies outside Hubei province to restart operations as soon as possible.

The data outside Hubei has been supportive given the number of newly confirmed cases outside Hubei has fallen for the thirteen consecutive days. China's top epidemic expert Mr. Zhong Nanshan expected the peak of the virus outbreak will come at mid or later February while the Dean of Leishenshan hospital, a special hospital built to take care of severely-ill coronavirus infected patients in Wuhan, said he believed the real turning point has come based on his own observations.

Jiangxi Province has become the first province in China to remove the police checkpoints in state highways on 13 Feb. Meanwhile, Hangzhou, capital city of Zhejiaing province, also announced to restart public transportation effective from 17 Feb.

We think the focus in China will soon shift back to support the growth. In the latest Politburo meeting last week, China's top policy makers vowed to step up more counter cyclical measures via larger fiscal stimulus to support the growth. Meanwhile, it also ordered the prudent monetary policy to be more flexible, hinting more liquidity injection and rate cut in the pipeline.

On property sector, China Evergrande hit the headline after announcing 25% discount for existing projects on sale by end of Feb. China's Finance Minister Liu Kun reiterated over the weekend in his article that property market is not for speculation.

In **Hong Kong,** government and commercial banks announced more supportive measures to relieve the downside risks hit by the local spreading of Covid-19 . The Hong Kong government unveiled a HKD 25 billion Anti-Virus Fund while some HK's commercial banks also announced multiple measures to relieve the pressure for the individuals and commercial customers. The relief measures might help to buffer the shocks encountered by those affected SMEs and individuals in the near term. Nevertheless, should the uncertainties of epidemic persist, the negative impacts on financial market, trade activities, tourism and retail sector might emerge further. If this is the case, we do not rule out the possibility that the unemployment rate will inch up further in the coming months, especially for those retail, catering, tourism and hotel sectors. Overall speaking, the economic outlook of HK might be highly depending on the impacts and the duration of epidemic. In terms of HKD liquidity, we expect front-end HKD liquidity to remain flushed in the near term, amid lack of liquidity squeezing events. 1-month and 3-month HIBORs might hover around 1.7% - 1.9% and 2.1%-2.3% respectively. In terms of USDHKD spot, it is likely to maintain a two-way fluctuation path. **In Macau,** government also announced a series of relief measure to counter the negative impact of Covid-19 on the local economy. The relief measures might help to buffer the shocks in the near term. Nevertheless, we expect the tourism, gaming and retail sectors of Macau might continue to take a significant hit, should the epidemic persist. Therefore, we expect a double-digit contraction of Macau's real GDP growth in the first quarter of 2020.

Key Events and Market Talk	
Facts	**OCBC Opinions**
▪ China's Qiushi magazine on 15 February published the full script of President Xi's speech in early February to the members of China Politburo. ▪ China's Customs announced ten measures on 16 February to support companies to restart their operation via expediting the import and export approval and streamline the administrative processes. ▪ China's Hubei province announced to further restrict people movement within the province banning all the private transportation. ▪ In addition, Xiaogan, the second most infected cities within Hubei province, instructed all the residents to stay at home.	▪ In the speech, President Xi said the efforts to contain the spread of disease has started from as early as 7 January. However, he also highlighted that China should continue to keep its target for economic development unchanged this year and all the targets set by the Party this year should be fulfilled. President Xi unveiled three main measures to ensure the stable growth including proactively encouraging companies to restart their operations, promoting big and quality infrastructure projects, and stabilizing consumption. ▪ We think President Xi has set the tone for striking the balance between fighting the virus and ensuring the stable economic growth. On one hand, China will further step up its efforts to contain the spread of disease in the epicentre of Hubei province via further restricting people movement. On the other hand, China will try to encourage companies outside Hubei province to restart operations as soon as possible. The data outside Hubei has been supportive given the newly confirmed cases outside Hubei have fallen for thirteen consecutive days. ▪ In the latest Politburo meeting, China's top policy makers vowed to step up more counter cyclical measures via larger fiscal stimulus to support the growth. Meanwhile, it also ordered the prudent monetary policy to be more flexible, hinting possible more liquidity injection and rate cut in the pipeline.
▪ Jiangxi Province has become the first province in China to remove the police checkpoints in state highways, which were designed to block the spread of virus and start the public transport.	▪ The announcement was made on 13 February and all the checkpoints have been removed during the day though Jiangxi will continue to check the passengers from other provinces in the border areas. Governor of Jiangxi urged domestic companies to restart their operation as soon as possible. According to government, the capacity of agriculture sector in Jiangxi has returned to about 72.8% as of 13 February. ▪ Meanwhile, Hangzhou, capital city of Zhejiaing province, also announced to restart public transportation effective from 17 Feb.
▪ More Chinese companies came out their own measures to support their business affected by the virus outbreak.	▪ The property company China Evergrande hit the headline via offering 25% discount to the existing projects by end of February. ▪ Although more easings are expected from both monetary and fiscal fronts to counter the negative impact of virus outbreak on the economy, China is unlikely to lower the guard against the property market. China's Finance Minister Liu Kun reiterated over the weekend that property market is not for speculation.
▪ China's top epidemic expert Mr. Zhong Nanshan expected the peak of the virus outbreak will come at mid or later February. ▪ The Dean of Leishenshan hospital, a special hospital designed to take care of severely illed coronavirus infected patients, said he believed the real turning point has come.	▪ Given more than 25000 medical workers have been sent to Hubei province, we think the whole healthcare system, which was at the edge of collapse in the first two weeks of the city lockdown, has been restored with more patients are able to be identified via either clinical diagnose or laboratory diagnose and receive the treatments as soon as possible. ▪ As China further stepped up its efforts to restrict people

	movement and spot the source of infections in Hubei, we think the outbreak in Hubei may have entered the last leg. The situation may start to turn soon after clearing the existing patients.
▪ HK's government and commercial banks announced supportive measures to relieve the downside risks hit by the local spreading of Covid-19.	▪ HK's government set up a HKD 25 billion Anti-Virus Fund. Specifically, government will provide subsidy for the private enterprises producing masks to increase supply, a HKD 4.7 billion subsidization to Hospital Authority and cash handouts plan for those poor families and affected parties. ▪ Some HK's commercial banks also announced multiple measures to relieve the pressure for the individuals and commercial customers. For example, the banks allow borrowers and small- and medium-sized enterprises with good payment record to make interest-only payments on mortgages. ▪ The relief measures might help to buffer the shocks encountered by those affected SMEs and individuals in the near term. Nevertheless, should the uncertainties of epidemic persist, the negative impacts on financial market, trade activities, tourism and retail sector might emerge further. If this is the case, we do not rule out the possibility that the unemployment rate will inch up further in the coming months, especially for those retail, catering, tourism and hotel sectors. Overall speaking, the economic outlook of HK might be highly depending on the impacts and the duration of epidemic.
▪ Due to no liquidity tightening catalysts in the near term, short-end HKD liquidity remained flushed, with 1-month HIBOR dropping to a three-month low.	▪ Moving forward, we expect front-end HKD liquidity to remain flushed in the near term, amid lack of liquidity squeezing events. 1-month and 3-month HIBORs might hover around 1.7% - 1.9% and 2.1%-2.3% respectively. In terms of USDHKD spot, it is likely to maintain a two-way fluctuation path.
▪ The Macau government announced a series of relief measure to counter the negative impact of Covid-19 on the local economy.	▪ The measures include 1) about 70% of the Professional Tax will be returned, 2) tax deduction in the 2019 Complementary Income Tax (ICR) to a maximum amount of MOP300,000, 3) exempt all Macau residents housing units from paying property tax for 2020, 4) 5 % tourism tax on consumption paid by entertaining industry will be exempted and 5) each permanent resident would be given a card with a stored value of MOP 3,000 for consumption. ▪ The relief measures might help to buffer the shocks in the near term. Nevertheless, we expect the tourism, gaming and retail sectors of Macau might continue to take a significant hit, should the epidemic persist. Therefore, we worry about that the business environment and the labor market of Macau might deteriorate in the coming months.

Key Economic News	
Facts	**OCBC Opinions**
▪ China's consumer inflation rose by 5.4% yoy in January beating market expectation.	▪ The higher than expected reading was mainly driven by both pork prices and non-food prices ahead of Chinese New Year holiday season. 51% of CPI was driven by rising pork prices. Core CPI excluding energy and food reaccelerated to 1.5% yoy from 1.4% yoy in December mainly due to Chinese New Year

	effect. We think 5.4% reading will mark the peak for 2020 and we expect CPI to trend down gradually as a result of softening pork prices and base effect.

RMB	
Facts	**OCBC Opinions**
▪ RMB has been largely stable last week.	▪ Given more people believe China is able to contain the virus outbreak in the near term, we think market may start to shift their focus back to fundamentals such as whether there is any structural impact of virus outbreak on China's value chain, which has been already affected by the US-China trade war last year.

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