Highlights

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While China's onshore credit storm has not abated, the focus has quickly shifted to offshore Chinese state-owned credit names in the past two weeks as a result of potential further escalation of US-China tension. The outgoing President Trump refuses to be lame duck when it comes to China issues after Reuters reported that the administration is close to expand its targeted Chinese companies with military ties to 89.

China's Vice Premier Liu He shared his view about China's dual circulation strategy last week. Although dual circulation is a demand side story, the key to realize it should mainly come from the supply side. As mentioned by Vice Premier Liu He in his article that deepening structural supply side reform will be the main storyline for 14th five-year plan while technology innovation will be the fundamental driver. China will pursue the path of supply creating demand in its dual circulation strategy.

I have been following China's total production factor reform since it was unveiled in early 2020. The reform of six important production factors including labor, land, capital, technology, data and entrepreneurship will dictate China's path for the next decade.

Nevertheless, China's dual circulation strategy does not mean it will become more inward looking. China will continue to seek wider, broader and deeper economic opening as mentioned by Liu. In addition, China will broaden its trial of Qualified Domestic Limited Partnership (QDLP) to meet the demand for global asset allocation from domestic investors. The broaden of outflow channels is likely to be positive for global assets.

Despite the recent rising volatility in China's money market, PBoC argues in its 3Q monetary policy report that the judgement of China's monetary policy should not depend on the change of size of central bank balance sheet. As long as growth of money supply and aggregate social financing remained strong, it showed that base money provided by the central bank monetary policy is appropriate. This shows that there is limited room for additional marginal easing.

On currency, RMB index will remain key reference point for PBoC. We think the range of 92-98 is a comfortable level for RMB index. Given China's increasing focus on independency of monetary policy, it will gradually loosen its tight control on currency volatility. This means that China will have higher tolerance for possible overshoot of RMB in the near term.

On economic data, the first year to date growth of industrial profit since 2019 reinforced the view that the Chinese economy has returned to pre-pandemic level.

In **Hong Kong,** the 2020 Policy Address announced additional measures to combat the virus and revive growth. However, it may be insufficient to alleviate the near-term economic stress given the virus resurgence and the tightened social distancing measures. Though imports grew for the second consecutive month in October, exports retreated unexpectedly. The renewed lockdowns across major economies may weigh on external demand and Hong Kong's trade sector once again. For the fourth quarter, GDP may continue to contract albeit at a slow pace.

Likewise, for the commercial property market, though the Doubled Ad Valorem Stamp Duty on the non-residential property market was abolished, the upside may be limited amid the still dire business conditions, the pandemic uncertainty, the flexible work arrangement and the prevalence of online shopping.

On a positive note, the medium outlook is still promising given the vaccine hopes, the accelerating regionalization, and the further integration across the Greater Bay Area.

Elsewhere, the stock market ended higher last week. Meanwhile, there was a new wave of IPOs, among which JD Health's public offering received the strongest response. This may help to restore confidence in the city's IPO market in the aftermath of the withdrawal of Ant Group's mega IPO. Also notable is that the loss-making biotechnology companies listed in Hong Kong and the stocks listed on the Mainland Sci-Tech Innovation Board will be included into the stock connect scheme. As such, we expect the IPO pipeline to remain busy going forward.

In **Macau,** visitor arrivals increased at a slower pace by 29.6% mom in October. In the near term, tourism sector's recovery may remain sluggish as the ongoing border controls look unlikely to get lifted amid virus resurgence across the globe.

Key Events and Market Talk	
Facts	**OCBC Opinions**
▪ China's Vice Premier Liu He published his article on China's dual circulation strategy on 25 Nov setting the tone for key messages.	▪ China's 400 million strong middle incomers have been the key cornerstone for China to develop its domestic market while the trend of deglobalization since global financial crisis and recent heightening geopolitical tensions have accelerated China's shift of focus to domestic circulation. ▪ Although dual circulation is a demand side story, the key to realize it should mainly come from the supply side. As mentioned by Vice Premier Liu He in his article that deepening structural reform will be the main storyline for 14^{th} five-year plan while technology innovation will be the fundamental driver. China will pursue the path of supply creating demand in its dual circulation strategy. ▪ I have been following China's total production factor reform since it was unveiled in early 2020. The reform of six important production factors including labor, land, capital, technology, data and entrepreneurship will dictate China's path for the next decade. ▪ On positive note, Liu He also highlighted the importance of boosting job market and increasing average income levels. The focus on equitable income distribution is likely to be the main demand side driver to support dual circulation strategy. ▪ Last but not least, China will not become more inward looking as Vice Premier wrote his article that China will continue to seek wider, broader and deeper economic opening.
▪ PBoC published its 3Q monetary policy report last week.	▪ Despite the recent rising volatility in China's money market, PBoC argues in its monetary policy report that the judgement of China's monetary policy should not depend on the change of size of central bank balance sheet. Instead, as long as growth of money supply and aggregate social financing remained strong, it showed that base money provided by the central bank monetary policy is appropriate. ▪ Nevertheless, overall funding costs to the real economy continued to decline with percentage of loan priced no higher than benchmark LPR increased to 32.3% in September from 30.77% in June although LPR fixing has been left unchanged since April. ▪ On currency, PBoC reiterated that it will continue to monitor the change of currency basket value. We think the range of 92-98 is a comfortable level for RMB index. Given China's increasing focus on independency of monetary policy, it will gradually loosen its tight control on currency volatility. This means that China will have higher tolerance for possible overshoot of RMB in the near term.
▪ China launched direct freight train service to Germany from East coast Jiangsu Province.	▪ The train will travel more than 10,000 Km and is expected to reach Hamburg in 15 days. China Europe freight train has gained popularity during the pandemic and the number of freight train has hit a record high of more than 10K in 2020.
▪ China's currency regulator SAFE's deputy head said that China will continue to push the orderly opening up of its capital account.	▪ China will broaden its trial of Qualified Domestic Limited Partnership (QDLP) to meet the demand for global asset allocation from domestic investors. The broaden of outflow channels is likely to be positive for global assets.

▪ Former PBoC Governor Zhou Xiaochuan called for the revamp of inflation by factoring in asset prices as well as the cost of public services.	▪ Zhou's comments raised some concerns among investors that whether China will cap the asset appreciation from property to equity after the revamp of inflation. Nevertheless, given how to include asset prices in the inflation calculation is still a matter to be studied, the near-term impact is unlikely to be significant.
▪ Hong Kong's Leader Carrie Lam delivered the 2020 Policy Address on 25 Nov. ▪ Due to the virus resurgence, the government tightened the social distancing measures including the forced closure of bars, night clubs and bathhouses during 26 Nov to 2 Dec.	▪ According to the Policy Address, to combat the virus and revive growth, there will be mandatory Covid-19 testing for high-risk groups, additional relief measures for the tourism/MICE/construction sectors and the unemployed, job creation, infrastructure investment, and vaccines to be reserved by China for Hong Kong. ▪ On top of this, there are several key takeaways. First, Hong Kong and the rest of Greater Bay Area will be integrated in terms of investment, technology development, transportation, and human resources. ▪ Second, stabilizing the property market remains the key policy focus as the Doubled Ad Valorem Stamp Duty on the non-residential property market will be abolished while the housing supply will be increased. The non-residential property market may rebound, albeit with the upside capped amid the still dire business conditions, the pandemic uncertainty, the flexible work arrangement and the prevalence of online shopping. On the other hand, whether the government could deliver the plan of increasing housing supply remains uncertain especially given the disruption from Covid-19. As such, the prospect of scarce supply and the lower interest rate will likely continue to boost the housing market in the near term. ▪ Third, in line with the strategy of China and other Asian countries, the government also advocates multilateralism as they stress on HK's role as the prime platform and a key link for the Belt and Road initiative and also the interest in joining the RCEP. ▪ Finally, sustainability is another focus with green recovery, green finance, and green transport in the pipeline.
▪ The PBoC and the HKMA jointly announced on 25 Nov that the currency swap agreement had been renewed for a term of five years, with its size expanded to RMB500 billion / HKD590 billion from RMB400 billion / HKD470 billion.	▪ This, together with the financial integration between Hong Kong and the GBA Mainland cities, reinforces the fact that Hong Kong will continue to be the key offshore RMB hub to help promote RMB internationalization.

Key Economic News

Facts	OCBC Opinions
▪ China's industrial profit jumped by 28.2% yoy in October. For the first ten months, industrial profit grew by 0.7% yoy, first positive growth since 2019.	▪ The strong growth of industrial profit was partially distorted by low base and investment return. Nevertheless, the first year to date growth reinforced the view that the Chinese economy has returned to pre-pandemic level. ▪ On breakdown, industrial profits from both equipment manufacturing sectors and consumer goods manufacturing sectors have improved, a sign that demand continued to improve. As a result of improving end demand, profit for upstream sectors such as raw material manufacturers also

	improved. Overall, the broad-based recovery of industrial profits across different sectors is expected to underpin China's recovery in the last quarter of 2020.
▪ Hong Kong: Exports unexpectedly retreated by 1.1% yoy in October, which suggests that external demand remained subdued. Meanwhile, imports grew for the second straight month by 0.6% yoy.	▪ On a more positive note, the trade with Taiwan and Vietnam continued to increase. Exports and imports of office machines and electrical machinery both expanded further as well. This reinforces the fact that Hong Kong continued to benefit from the supply chain shift and the prevalence of "China+1" strategy in particular in terms of the electronics industry. In the coming months, exports and imports may turn sluggish amid virus resurgence internally and externally. However, in the medium term, we think that the trade sector's outlook is promising given the accelerating regionalization (the RCEP is a milestone), the vaccine hopes and the expected easing of US-China trade tension under a Biden administration.
▪ Macau's visitor arrivals increased by 29.6% mom in October as Mainland China fully resumed the visa approvals to Macau in late September. The year-on-year decline also narrowed to -81.9% yoy. ▪	▪ However, the recovery of Macau's inbound tourism was still slow as the travel between China and Macau remains subject to conditions and the availability of transport remains limited. In the near term, tourism sector's recovery may remain sluggish as the ongoing border controls look unlikely to get lifted amid virus resurgence across the globe. However, in the medium term, should an effective vaccine be widely available and allows international travel to resume normalcy, the tourism sector will likely regain strong momentum. ▪

RMB	
Facts	**OCBC Opinions**
▪ The USDCNY consolidated between 6.55 and 6.60.	▪ RMB weakened against its major trading partners. We think the range of 92-98 is a comfortable level for RMB index.

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