# Greater China – Week in Review

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## Highlights

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China's August economic data released last week remained upbeat. The stock of aggregate social financing rose by 13.3% yoy, fastest growth since February 2018. The stronger than expected aggregate social financing was mainly supported by local government bond issuance thanks to proactive fiscal policy.

M2 growth, however, decelerated to 10.4% from 10.7% in July. The divergence between M2 growth and aggregate social financing growth was mainly the result of rising fiscal deposit. Nevertheless, the acceleration of M1 growth showed the economic activities remain high.

China's export beat market expectation again in August up by 9.5% yoy in dollar term. The stronger than expected export in August was partially the result of strong demand from the US. China's exports to US reaccelerated to 20% yoy in August, fastest since February 2018. We saw the similar episode in late 2018 when Chinese exporters frontloading their exports to the US amid the escalation of trade war.

China's trade with ASEAN remained strong. China's exports to ASEAN rose by 12.94% yoy in August. China's strong exports to ASEAN may be supported by two factors including rising regionalization trend amid de-globalization and supply chain shift as ASEAN continued to benefit from China plus one strategy.

China's CPI decelerated to 2.4% yoy in August from 2.7% yoy in July as expected. The modest deceleration of CPI was mainly due to slowing pace of increase of food prices led by pork prices. Given summer has ended, we expect food prices to moderate further, which will drag down CPI reading in the coming months. We expect China's CPI to fall below 1% in the last quarter of 2020. This may lead to rising concern about the impact of higher real interest rate on the economy.

China's State Council unveiled new rules to tighten its supervision of financial holding companies. The financial holding companies will be put under the centralized supervision of the central bank, which aimed to prevent from the regulatory arbitrage. This will help reduce systemic risk.

In **Hong Kong,** given the receding local pandemic, the government further eased the containment measures and is discussing with 11 countries to form a travel bubble. This will pave way for a gradual recovery of the economy. However, the government warned that cross-border travel may remain subject to different conditions such as mandatory quarantine, nucleic acid tests, etc. Besides, even if the travel bubble is formed, the transport between two countries/regions may not resume normalcy. In other words, unless effective vaccine is widely available, Hong Kong's tourism-related sectors may remain sluggish.

On **financial market front,** following the step of Nongfu Spring, companies kicked off their public offering in Hong Kong one after another. More firms are said to follow suit soon ahead of Ant Group's big IPO. Robust IPO pipeline, combined with the quarter-end effect, may keep the HKD liquidity relatively tight despite the increased interbank liquidity. However, we think the upside of HKD rates will be limited and any uptrend of HIBOR will be transitory especially if USDHKD spot re-tests 7.75 and pushes aggregate balance up further.

On **banking sector front,** due to the competition from virtual banks, some traditional bank announced to scrap fees while some lifted fixed deposit rates. Going forward, for the scrapping of fees, we expect more traditional banks will join the camp to retain existing customers while attracting new ones. However, we do not think the lifting of fixed deposit rates will sustain for long. Also, it looks unlikely for other banks to follow suit given the increased interbank liquidity, the decreased HKD loan-to-deposit ratio and the rising HKD CASA deposits.

| Key Events and Market Talk | |
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| **Facts** | **OCBC Opinions** |
| ▪ China's State Council unveiled new rules to tighten its supervision of financial holding companies. | ▪ The new regulation will require non-financial companies or other eligible entities controlling at least two financial institutions to obtain the approval from PBoC to establish financial holding companies.<br>▪ The financial holding companies will be put under the centralized supervision of the central bank, which aimed to prevent from the so called regulatory arbitrage. This will help reduce systemic risk. The new rule will take effect from 1 November. |
| ▪ Hong Kong government further eased the containment measures given the receding local pandemic. Specifically, the size of public gatherings and the maximum number of diners at each table were both increased to 4 from 2. Meanwhile, more businesses including all sports venues and game centers were allowed to re-open. The easing of measures took effect from 11th September.<br>▪ The number of passengers of HK International Airport decreased by over 90% for the sixth consecutive month and was down by 98.6% yoy in August. | ▪ In addition to the easing of social distancing measures, the government is discussing with 11 countries including Japan and Thailand to form a travel bubble as the aviation sector and tourism-related sectors have been under immense pressure. Besides, the government pointed out that health code for citizens to visit Mainland China is almost ready. Meanwhile, the government hinted that convention centers and theme parks may be exempted from social distancing measures this Friday (18th September), if conditions allow. This will pave way for a gradual recovery of the economy.<br>▪ However, the government also warned that cross-border travel may remain subject to different conditions such as mandatory quarantine, nucleic acid tests, etc. Besides, even if the travel bubble is formed, the transport between two countries/regions may not resume normalcy. In other words, unless effective vaccine is widely available, Hong Kong's tourism-related sectors may remain sluggish. |
| ▪ Hong Kong: following the step of Nongfu Spring, companies kicked off their public offering in Hong Kong one after another, including last week's Fulu Holidings, Joy Spreader Interactive Technology and Huazhu Group.<br>▪ Over five more companies reportedly are set to start their public offering ahead of Ant Group whose US$10 billion IPO in October is expected to tighten the liquidity. | ▪ Robust IPO pipeline, combined with the quarter-end effect, appears to have kept the HKD liquidity relatively tight despite the increased interbank liquidity. 1M HIBOR came off only slightly from 0.42% on 4th September to 0.39% last Friday while 3M HIBOR rose by 2.5bps to 0.54% during the same period.<br>▪ Going forward, given the short-term liquidity draining events, HKD demand may remain strong while HKD rates may stay relatively elevated. However, we still think the upside of HKD rates will be limited and any uptrend of HIBOR will be transitory especially if USDHKD spot re-tests 7.75 and pushes aggregate balance up further from the current level of HK$206.3 billion. |
| ▪ Hong Kong: some traditional and virtual banks raised the fixed deposit rate last week. Meanwhile, big bank announced to scrap the fees and charges of 26 types of basic banking services to promote inclusive finance, effective from 1st November. This is estimated to benefit some four million clients of the bank. | ▪ Given the increasing competition amid virtual bank launches (five of the eight licensed virtual banks have started operations in Hong Kong), we expect more traditional banks will follow suit to scrap basic services fees and charges to retain existing customers while attract new ones. Meanwhile, traditional banks may have accelerated the pace of digital transformation due to the threat from virtual banks as well as the expected long-term change to people's behavior post Covid-19. This may help to reduce costs in the long term.<br>▪ Elsewhere, apart from fierce competition, some banks' move to raise fixed deposit rate may also be attributed to the upcoming short-term liquidity draining events including |

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| | quarter-end, year-end and busy IPO pipeline. However, we do not think the lifting of fixed deposit rates will sustain for long or other banks will follow suit given the increased interbank liquidity, the decreased HKD loan-to-deposit ratio and the rising HKD CASA deposits. |
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## Key Economic News

| Facts | OCBC Opinions |
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| ▪ China's export beat market expectation again in August up by 9.5% yoy in dollar term. However, imports fell by 2.1% yoy.<br>▪ As a result of stronger than expected export, China's trade surplus remained strong at US$58.9 billion in August. | ▪ Three takeaways from trade data.<br>▪ First, the stronger than expected export in August was partially the result of strong demand from the US. China's exports to US reaccelerated to 20% yoy in August, fastest since February 2018. The strong demand was probably due to the frontloading activities as a result of rising concerns about the US-China tension. This is similar to the episode we saw in the last quarter of 2018 when the trade war escalated.<br>▪ Second, China's trade with ASEAN remained strong. China's exports to ASEAN rose by 12.94% yoy in August. China's strong exports to ASEAN may be supported by two factors including rising regionalization trend amid de-globalization and supply chain shift as ASEAN continued to benefit from China plus one strategy.<br>▪ Third, the contraction of import is still the result of low oil prices. Crude oil imports fell by 24.61% yoy in August. Given oil prices are still 20 dollars below average prices in the last quarter of 2019, we expect China's crude imports to remain in contraction territory in the coming months. Nevertheless, China's demand for integrated circuit remained strong with imports of IC rose by 11% yoy as Chinese companies stocked up inventories due to strong demand for electronic products and heightening US-China tech war. |
| ▪ China's CPI decelerated to 2.4% yoy in August from 2.7% yoy in July as expected.<br>▪ The contraction of PPI narrowed to 2% yoy in August from 2.4% in July. | ▪ The modest deceleration of CPI was mainly due to slowing pace of increase of food prices led by pork prices, which only rose by 1.2% mom in August as the impact of flood and heavy rain started to fade away.<br>▪ Non-food prices rose by 0.1% mom in line with seasonal patterns. CPI housing rental rose by 0.1% mom, the first sequential increase since August 2019. This signals the modest recovery of job market after most of economic activities returned to pre covid normality thanks to China's effective virus containment measures.<br>▪ Looking ahead, given summer has ended, we expect food prices to moderate further. We expect China's CPI to decelerate further in yoy reading. September CPI is expected to slow to below 2%, for the first time since February 2019. For the last quarter of 2020, we expect CPI to test below 1% due to base effect. This may send China's real interest rate higher. |
| ▪ China's aggregate social financing increased by CNY3.58 trillion in August, up from CNY1.694 trillion in July. New Yuan loan increased by CNY1.28 trillion, up from CNY992.7 billion in July.<br>▪ M2 growth, however, decelerated to 10.4% from | ▪ Loan structure remained healthy. Medium to long term loan increased by CNY725.2 billion in August, up by CNY296 billion in the same month of 2019 on the back of demand from infrastructure projects. In addition, medium to long term loan to household went up further probably due to strong demand |

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| 10.7% in July. | for housing sector.<br>▪ The stock of aggregate social financing rose by 13.3% yoy, fastest growth since February 2018. The stronger than expected aggregate social financing was mainly supported by local government bond issuance, which increased by a record of CNY1.38 trillion. In addition, equity financing also increased by more than CNY100 billion for two consecutive months.<br>▪ The divergence between M2 growth and aggregate social financing growth was mainly the result of rising fiscal deposit. Nevertheless, the acceleration of M1 growth showed the economic activities remain high. |
| ▪ Macau's average housing price dropped for the seventh consecutive month by 9.2% yoy to MOP99,909/sq.m. in July. During the same month, housing transaction volume growth returned to negative territory with a decline of 19.9% yoy. | ▪ The retreat of the housing market suggests that the pent-up demand, the long-term undersupply of housing and the lowered interest rates together were insufficient to offset the hit from several unfavorable factors.<br>▪ First, the supply in both primary and secondary housing market reduced. This translated into lower transaction volume. Second, local homer buyers who own more than one flat only took up 1.4% of total local home buyers in July, the lowest on record. Investment sentiment in the housing market may have been dented by the control measures, the sluggish business outlook and the sliding housing rents amid the sharp decrease in non-local workers. Third, with first-home local buyers (represented 84.1% of total local buyers in July) being the main driver of the housing market growth, the market remained sluggish due to the increasing local unemployment and the still bleak economic outlook.<br>▪ Going forward, the housing market is more likely to stabilize than to show much upside as neither labor market nor local economy is expected to show a strong comeback on the resumption of travel between Mainland China and Macau. We expect average housing price (-5.3% YTD in July) to drop up to 5% yoy by end-2020. As such, the notable growth of approved new residential mortgage loans (+79.8% mom or 74.6% yoy to MOP8.3 billion, the highest since September 2018) may be unsustainable. |

| RMB | |
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| **Facts** | **OCBC Opinions** |
| ▪ The USDCNY entered consolidation mode last week ranging between 6.80-6.85. | ▪ Despite the rebound of broad dollar last week, RMB stood firm against the dollar due to tight RMB liquidity and favourable yield differential. This sends RMB index higher further to about 93.5, highest since mid-May. We will continue to monitor RMB index level, which is still within comfort zone for PBoC in our view. |

# Treasury Research & Strategy

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