

Greater China – Week in Review

11 October 2021

Highlights: more measures to solve power shortage

Tommy Xie
Xied@ocbc.com

Herbert Wong
herberthtwong@ocbcwh.com

China returned from the October golden week holiday with slight risk on mood despite deteriorating energy crisis in the world and uncertain debt crisis from Evergrande.

Chinese travellers made 515 million trips during the October golden week, down 1.5% yoy from the same period in 2020. Tourism spending was down by 4.7% yoy to CNY389 billion according to preliminary estimation from the Ministry of Culture and Tourism. Nevertheless, there is a change of consumption pattern. China's box office hit CNY4.25 billion, up from CNY3.95 billion during the same time in 2020. In addition, the data from China UnionPay also showed that average daily transaction surged by 32% yoy compared with last year's golden week holiday.

China's State Council announced more measures to ease pressure on coal production and electricity supply.

On coal production, China granted the green light to coal mines to boost coal production. Authorities from Inner Mongolia has urged 72 coal mines to increase production capacity by 98.35 million tons last week. Nevertheless, the recent heavy rainfall in one of China's major coal production provinces Shanxi Province may prolong the supply constraint.

On electricity supply, the fluctuation range for market-based electricity prices will be allowed to expand to 20% from the benchmark price from previously 10% ceiling and 15% floor. In addition, for energy intensive industries, the 20% fluctuation cap will be removed. The reform of electricity pricing mechanism could be inflationary.

The meeting between Chinese Vice Premier Liu He and US trade negotiator Katherine Tai covered a wide range of topics including China's lodge for removal of trade tariff, implementation of phase one trade deal and US's concern about China's state-led industrial policies.

China is likely to boost its purchase of US goods under phase one deal ahead of the virtual meeting between leaders. However, China is unlikely to respond to US's complain about China's industrial policies. Although some US officials think the engagement with China about industrial policy was the basis of the trading relationship, Chinese media hardly reported any news about industrial policy, showing understanding gap between two countries.

In **Hong Kong**, PMI for private sector stayed above 50 for the eighth consecutive month but dropped from 53.3 in August to 51.7 in September with weak output and demand. This may be attributable to the abated effect of e-vouchers schemes and the external headwinds including supply disruptions. On a positive note, a stable Covid-19 situation supported demand and output in September. Going forward, PMI may continue to stay in the expansion territory though the upside may be capped by lingering pandemic uncertainty, elevated shipping costs, high raw material costs, etc. On the policy front, Hong Kong Chief Executive Carrie Lam announced the latest 2021 Policy Address on Oct 6. The key notes of its plan would be shifting from combating the virus to supporting long-term development in four

Greater China – Week in Review

11 October 2021

key areas, including promote the integration among the Greater Bay Area, tackle the persistent housing supply issue, supportive measures for various industries as well as supporting sustainable development.

HKMA released a technical whitepaper, titled “e-HKD: A technical perspective”, to come up with the potential technical design options for issuing and distributing retail CBDCs. This marks as a first step for Hong Kong to deploy digitalization projects and finally promote a wide-spread use of retail CBDCs, however, we may not see any real impact on the market at this juncture. Last but not least, Guangdong Province has announced its 14th five-year plan which proposes connecting Shenzhen to the Hong Kong-Zhuhai-Macau Bridge. We expect this connection between Hong Kong’s Lantau Island and Qianhai of Shenzhen which may facilitate the collaboration between the two cities.

In **Macau**, the city cancelled its plan to reopen the border with Zhuhai and announced a third round of mass Covid-19 testing as a series of new local Covid-19 confirmed case, causing a sharp drop of visitor arrivals during golden week holiday. According to the Macau Tourism Office, there were only 8,159 visitors during the period of October 1-7. Comparing to the same “Golden Week” in 2019 and 2020, the total visitor arrivals was down by 99% and 94% respectively. Although it is difficult to make direct comparison due to the difference in the number of days in the “Golden week” (7 days in 2021 and 8 days in 2020), but still, the recent Covid outbreaks and the psychological impact on visitors did put a great impact on consumer willingness to visit and spend in Macau. We expect this sluggish China’s golden week data set may translate into a poor retail sales growth and employment data in October.

Greater China – Week in Review

11 October 2021

Key Events and Market Talk	
Facts	OCBC Opinions
<ul style="list-style-type: none"> China's State Council announced more measures to ease pressure on coal production and electricity supply. 	<ul style="list-style-type: none"> On the premise of keeping the electricity prices stable for residents, agriculture and public welfare, the fluctuation range for market based electricity prices will be allowed to expand to 20% from the benchmark price from previously 10% ceiling and 15% floor. In addition, for energy intensive industries, the 20% fluctuation cap will be removed. The more flexible electricity pricing mechanism is likely to alleviate the pressure on distortion on power generator. In addition, China also granted the green light to coal mines to boost coal production. Authorities from Inner Mongolia has urged 72 coal mines to increase production capacity by 98.35 million tons last week. Nevertheless, the recent heavy rainfall in one of China's major coal production provinces Shanxi Province may prolong the supply constraint.
<ul style="list-style-type: none"> Chinese Vice Premier Liu He and US trade representative Katherine Tay exchanged the view on trade issue via a virtual meeting. 	<ul style="list-style-type: none"> The meeting covered a wide range of topics including China's lodge for removal of trade tariff, implementation of phase one trade deal and US's concern about China's state-led industrial policies which the US thinks harmed American workers and business. China is likely to boost its purchase of US goods under phase one deal ahead of the virtual meeting between leaders. However, China is unlikely to respond to US complain about China's industrial policies. Although some US officials think the engagement with China about industrial policy was the basis of the trading relationship, Chinese media rarely touched about the topic about industrial policy, signalling that industrial policies unlikely to top China's agenda.
<ul style="list-style-type: none"> China's state reserves authority released a total of 150 tons of copper, aluminium and zinc last week. 	<ul style="list-style-type: none"> The release of metal reserves aims to help alleviate the pressure on companies amid the rise of commodity prices.
<ul style="list-style-type: none"> Hong Kong Chief Executive Carrie Lam announced 2021 Policy Address on Oct 6, the focus of which shifts from combating the virus to supporting long-term development in four key areas. 	<ul style="list-style-type: none"> First, promoting the integration among the Greater Bay Area. What caught market's attention most is the development plan of Northern Metropolis which aims to facilitate close collaboration between Hong Kong and Shenzhen on infrastructure, people's livelihood, ecological environment as well as high-tech development which will support China's industrial upgrade, Hong Kong's re-industrialization and economic diversification. Second, tackling the persistent housing supply issue. In terms of home supply, the government will strive to provide about 430,000 public and private units in the coming ten years and increase the provision of transitional housing units to 20,000. To increase land supply, the development plan of Northern Metropolis coupled with other plans may ensure new home supply of around 600,000 units in the period of 10 to 15 years after 2031-32. However, the plans stated above will take some time to materialize given the complicated process. As such, we expect that any downward pressure on housing prices may be limited in the near term. Third, a slew of supportive measures for various industries including finance, transportation, trade, innovation and technology, aviation etc. In addition, the government will

Greater China – Week in Review

11 October 2021

	<p>support SMEs and increase investment in infrastructure. Notably, the government positions infrastructure investment (over HK\$100bn annually in the coming years) as a major counter-cyclical measure.</p> <ul style="list-style-type: none"> Finally, supporting sustainable development with an aim to achieve carbon neutrality before 2050 and support the ageing population.
<ul style="list-style-type: none"> According to the latest report from the Hong Kong private wealth management association and KPMG China, the private wealth management industry will continue to grow in Hong Kong. 	<ul style="list-style-type: none"> Most of the survey respondents (wealth management institutions) expect the AUM will increase 6-10% yoy in the next five years. On one hand, the fiscal stimulus and monetary accommodation may have made the local rich richer. On the other hand, the launch of wealth management connect and the expectedly expansion of cross-border investment channels may attract China's onshore high-net-worth individuals to offshore market. This reinforces the fact that Hong Kong's wealth management industry remains resilient despite the Covid-19 shocks and the looming political uncertainties.
<ul style="list-style-type: none"> Guangdong Province has announced its 14th five-year plan which proposes connecting Shenzhen to the Hong Kong-Zhuhai-Macau Bridge (the Bridge) 	<ul style="list-style-type: none"> "Once the development of the Greater Bay Area accelerates, the extension of the Bridge may also speed up. Should pandemic be brought under control and the cross-border health code system be well established, the Bridge may help to improve the economic development, people's livelihood and create more opportunities", said the deputy dean of the research institution of Sun Yat Sen University Mao Yanhua. We also expect that connection between Hong Kong's Lantau Island and Qianhai of Shenzhen which may facilitate the collaboration between the two cities.
<ul style="list-style-type: none"> HKMA released a technical whitepaper, titled "e-HKD: A technical perspective", to come up with the potential technical design options for issuing and distributing retail CBDCs. 	<ul style="list-style-type: none"> Also notable is that the Whitepaper unveils a technical architecture that preserves both privacy and traceability and is designed based on three key principles, including safety, efficiency, and openness to change, innovation, and competition. On top of these, the HKMA may also have to take into account the implications to the banking system and to cross-border capital flows. As such, the HKMA points out that the proposed architecture is not a blueprint for e-HKD. Going forward, the HKMA will seek opinions from academia and industry while aiming to come up with an initial view by mid-2022. Since it will take time to finalize the infrastructure, deploy pilot projects and finally promote a wide-spread use of retail CBDCs, we may not see any real impact on the market at this juncture.

Key Economic News

Facts	OCBC Opinions
<ul style="list-style-type: none"> Chinese travellers made 515 million trips during the October golden week, down 1.5% yoy. Tourism spending was down by 4.7% yoy to CNY389 billion according to preliminary estimation from the Ministry of Culture and Tourism. However, China's box office hit CNY4.25 billion, up from CNY3.95 billion. 	<ul style="list-style-type: none"> Total trips made during 2021 golden week reached 70.1% pre-pandemic level. The small dip of this year's travel was probably due to the ripple effect from the recent sporadic outbreak of delta variant. Nevertheless, the strong year-on-year increase of box office showed that the change of consumption appetite. In addition, the data from China UnionPay also showed that average daily transaction surged by 32% yoy compared with last year's golden week holiday.

Greater China – Week in Review

11 October 2021

<ul style="list-style-type: none"> Hong Kong's housing transaction volume jumped for the 16th consecutive month by 16% yoy in September but remained relatively low at 5844 deals compared to an average of 6281 deals over the past year. On top of this, CCL index which tracks secondary housing market retreated lately after refreshing record high. 	<ul style="list-style-type: none"> Going forward, due to the ongoing border control and the subdued investor sentiments in the run-up to the Fed' tightening cycle, housing market's upside may be capped despite the favourable factors including improvement in labour market, rebound in housing rent (+3.2% YTD as of Aug 2021), low interest rate environment and persistent imbalance between supply and demand. On supply front, private home supply in the next 2-3 years is expected to remain low. Though 2021 Policy Address indicates the government's plan to increase long-term home and land supply, the plan may take some time to materialize given the complicated process. As such, we expect that any downward pressure on housing prices may be limited in the near term. We hold onto our view that housing price may grow by 5% yoy by end of this year.
--	---

RMB	
Facts	OCBC Opinions
<ul style="list-style-type: none"> The USDCNY was kept in a narrow range despite strengthening broad dollar. 	<ul style="list-style-type: none"> RMB Index remained strong hovering around 100 level. The recent resilient RMB was mainly attributable to portfolio inflows and still strong trade surplus. In addition, RMB may also receive the support from the rising expectation on possible partial removal of trade tariff by the US side.

Treasury Research & Strategy

OCBC Greater China Research

Tommy XieXied@ocbc.com**Herbert Wong**herberthwong@ocbcwh.com

This publication is solely for information purposes only and may not be published, circulated, reproduced or distributed in whole or in part to any other person without our prior written consent. This publication should not be construed as an offer or solicitation for the subscription, purchase or sale of the securities/instruments mentioned herein. Any forecast on the economy, stock market, bond market and economic trends of the markets provided is not necessarily indicative of the future or likely performance of the securities/instruments. Whilst the information contained herein has been compiled from sources believed to be reliable and we have taken all reasonable care to ensure that the information contained in this publication is not untrue or misleading at the time of publication, we cannot guarantee and we make no representation as to its accuracy or completeness, and you should not act on it without first independently verifying its contents. The securities/instruments mentioned in this publication may not be suitable for investment by all investors. Any opinion or estimate contained in this report is subject to change without notice. We have not given any consideration to and we have not made any investigation of the investment objectives, financial situation or particular needs of the recipient or any class of persons, and accordingly, no warranty whatsoever is given and no liability whatsoever is accepted for any loss arising whether directly or indirectly as a result of the recipient or any class of persons acting on such information or opinion or estimate. This publication may cover a wide range of topics and is not intended to be a comprehensive study or to provide any recommendation or advice on personal investing or financial planning. Accordingly, they should not be relied on or treated as a substitute for specific advice concerning individual situations. Please seek advice from a financial adviser regarding the suitability of any investment product taking into account your specific investment objectives, financial situation or particular needs before you make a commitment to purchase the investment product. OCBC Bank, its related companies, their respective directors and/or employees (collectively "Related Persons") may or might have in the future interests in the investment products or the issuers mentioned herein. Such interests include effecting transactions in such investment products, and providing broking, investment banking and other financial services to such issuers. OCBC Bank and its Related Persons may also be related to, and receive fees from, providers of such investment products.

This report is intended for your sole use and information. By accepting this report, you agree that you shall not share, communicate, distribute, deliver a copy of or otherwise disclose in any way all or any part of this report or any information contained herein (such report, part thereof and information, "Relevant Materials") to any person or entity (including, without limitation, any overseas office, affiliate, parent entity, subsidiary entity or related entity) (any such person or entity, a "Relevant Entity") in breach of any law, rule, regulation, guidance or similar. In particular, you agree not to share, communicate, distribute, deliver or otherwise disclose any Relevant Materials to any Relevant Entity that is subject to the Markets in Financial Instruments Directive (2014/65/EU) ("MiFID") and the EU's Markets in Financial Instruments Regulation (600/2014) ("MiFIR") (together referred to as "MiFID II"), or any part thereof, as implemented in any jurisdiction. No member of the OCBC Group shall be liable or responsible for the compliance by you or any Relevant Entity with any law, rule, regulation, guidance or similar (including, without limitation, MiFID II, as implemented in any jurisdiction).

Co.Reg.no.:193200032W