Greater China – Week in Review

12 April 2021

Highlights: watching out for price transmission

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The US-China tension continued to brew in the tech space last week after seven Chinese supercomputer centers were added into US government's entity list. The US Commerce Department said it will use the full extent of its authorities to prevent China from leveraging US technologies.

However, the return of climate change topic might finally give us a break to take our eyes off the tense bilateral relationship between US and China after it was reported over the weekend that John Kerry, Biden Administration's top climate official, may visit China this week to seek climate cooperation ahead of the World Leaders Virtual Summit on climate on 22 and 23 April.

Nevertheless, the limited common ground between US and China may soon be overshadowed by the upcoming bipartisan "Strategic Competition Act of 2021" to counter China's influence. The bill will be considered by the US Senate Foreign Relations Committee on 21 April before heading towards the Senate floor for a vote.

On economic data, China's CPI rose by 0.4% yoy in March while PPI reaccelerated to 4.4% yoy. The gap between PPI and CPI widened to 4%, highest since November 2017. The rise of CPI was mainly contributed by higher transportation and communication costs, accounting for 75% increase of CPI. In addition, China's National Bureau of Statistics also said that industry consumer goods prices went up by 1% yoy, first growth in a year.

There is a sign of spillover effect from higher producer prices to consumer prices. Nevertheless, given core CPI only grew by 0.3%, the transmission effect from higher PPI to CPI is still within the limit. As such, we think the recent rebound of PPI is unlikely to be a major challenge to China's policy setting.

In spite of no U-turn of macro policy, the focus in the coming months will be on China's credit data after it was reported by media last week that Chinese regulators have asked banks to control credit expansion. We shared the same concern that we might see sharp slowdown of credit growth in the coming months.

Foreigners net sold CNY16.5 billion Chinese government bond in March, first outflow since February 2019, although overall net inflows remained positive albeit at a much smaller number of CNY4.6 billion.

The outflows in China's government bond and equity together with weak sentiment in the offshore dollar bond market about the earning delays by China's state-owned bad debt manager Huarong Asset Management may cloud the near-term outlook of RMB. RMB weakened against its major trading partners last week.

Elsewhere, the small decline of FX reserve in March was mainly the result of valuation effect due to stronger broad dollar and rising volatility in risky assets. As PBoC is unwilling to expand the balance sheet amid the recent new wave of capital inflows, the change of China's FX reserve is mainly the function of mark to market valuation change rather than the cross-border capital flows.

In **Hong Kong,** financial market remains volatile post long-weekend holiday with USDHKD spot breaking above 7.7800 for the first time since last March. Despite the

Fed's persistently dovish tone, market players in Hong Kong have still been cautious amid lingering concerns about the PBoC's pre-emptive tightening. In particular, the public offering of Trip.com last week has received muted response. Meanwhile, the renewed southbound net inflows under stock connect have been benign. Given the muted equity-related and loan-related HKD demand, we expect USDHKD spot to trade in the range of 7.77-7.79 in the absence of seasonal factors. Still, we see low probability of the currency pair breaking above 7.80 in the near term given the still flushed global liquidity, a still narrow USD-HKD interest rate gap and the still busy IPO pipeline. With the HKEx seeking to enhance and streamline the listing regime for overseas issuers, coupled with HSI overhaul in mid-2021 and the possibility of first SPAC listing by end of this year, we think it is possible for Hong Kong's IPO market to remain vibrant.

On the economy front, the PMI for private sector rose further from 50.2 in February to 50.5 in March with the staffing levels increasing at the fastest pace since June 2011. With the business activities stabilizing and hiring sentiments improving, it confirms that the economy is on the right track for recovery.

Finally, housing price index and housing transaction volume continued to increase in early 2021. However, since the CCL index has not yet shown a clear uptrend, we will closely monitor whether the upside of the housing market will be capped by the sliding housing rental and the negative wealth effect amid stock market correction.

In Macau, the daily average visitor arrivals during the Easter and Qingming holiday reached 19,914, up 53.8% from that during Lunar New Year holiday but down 17% from that of March. We will have more clues from the data regarding visitor arrivals during Labor Day holiday.

Key Events and Market Talk	
Facts	**OCBC Opinions**
▪ China's director of Centre for Disease Control Gao Fu said China is examining two routes to solve the problem that the efficacy rate of its existing vaccines based is not so high. ▪ The two possible options are to mix vaccines with different technology and adjust the interval between doses.	▪ The low efficacy rate has not derailed China's role as the major vaccine exporters. Close to 100 million doses have been administrated overseas. ▪ In the end, what matters is still the efficacy rate against the severe illness which will help free up hospital resources.
▪ USDHKD spot broke above 7.7800 and refreshed the over one-year high despite the retreat of broad dollar index.	▪ This reinforces our view that the weakness of HKD has been driven mainly by the sluggish HKD demand. Specifically, as the PBoC reportedly looks to rein in lending, the resultant downward pressure on Hong Kong stock market translated into subdued equity-related HKD demand. On the other hand, loan demand remains muted amid weak response to IPOs and the still dire business situation. ▪ Going ahead, though the Fed has reassured financial markets about its dovish stance, Hong Kong stock market's volatility looks set to remain elevated amid lingering concerns about the PBoC's pre-emptive tightening. Given the muted equity-related and loan-related HKD demand, we expect USDHKD spot to trade in the range of 7.77-7.79 in the absence of seasonal factors. Still, we see low probability of the currency pair breaking above 7.80 in the near term given the still flushed global liquidity, a still narrow USD-HKD interest rate gap and the still busy IPO pipeline.
▪ Hong Kong Exchange (HKEx) published a consultation paper seeking public feedback during the next two months on proposals to enhance and streamline the listing regime for overseas issuers on 31 March.	▪ First, the HKEx is seeking to streamline requirements with a single set of shareholder protection standards to ensure consistent protection is provided to all investors. Second, the HKEx is planning to expand the secondary listing regime for overseas-listed Greater China companies from traditional sectors without weighted voting rights. Third, the HKEx is going to increase the flexibility for issuers seeking dual-primary listings and maintain their existing weighted voting right structure and variable interest entity structures. ▪ According to Deloitte, during the first quarter, there has been a total of 32 IPOs raising HK$132.8 billion in Hong Kong. The 1Q IPO proceeds reached a multi-year high, mainly attributable to three large IPOs Kuaishou, Baidu and Bilibili. For 2021 as a whole, Deloitte expects that Hong Kong's total IPO proceeds may reach record high of about HK$450 billion and there may be over 10 ADRs reshoring and raising over HK$100 billion in Hong Kong. With the HKEx seeking to enhance and streamline the listing regime for overseas issuers, coupled with HSI overhaul in mid-2021 and the possibility of first SPAC listing by end of this year, we also think it is possible for Hong Kong's IPO market to remain vibrant.

Key Economic News	
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▪ China's CPI rose by 0.4% yoy in March. PPI growth reaccelerated to 4.4% yoy. The gap between PPI and CPI widened to 4%, highest since November	▪ On sequential basis, CPI fell by 0.5% mom, in line with post Chinese New Year holiday seasonal pattern as a result of falling food prices, which fell by 3.6% mom in March.

2017.	▪ Despite mom decline of CPI, the rebound of CPI in yoy reading to 0.4% from previously -0.2% was mainly due to abating base effect as well as higher transportation and communication costs. The transportation and communication prices brought up CPI by 0.3%, first positive contribution since January 2020, a sign of spillover effect from higher producer prices to consumer prices. In addition, China's National Bureau of Statistics also said that industry consumer goods prices went up by 1%, first growth in a year. ▪ Nevertheless, given core CPI only grew by 0.3%, the passthrough effect from higher PPI to CPI is still within the limit. As such, we think the recent rebound of PPI is unlikely to be a major challenge to China's policy setting.
▪ China's FX reserve fell to US$3.17 trillion in March from US$3.204 trillion in February.	▪ The small decline of FX reserve in March was mainly the result of valuation effect due to stronger broad dollar and rising volatility in risky assets. As PBoC is unwilling to expand the balance sheet amid the recent new wave of capital inflows, the change of China's FX reserve is mainly the function of mark to market valuation change rather than the cross-border capital flows.
▪ Monthly net inflows into China's onshore bond market from foreigners slowed down to CNY4.6 billion in March after a record of CNY171.9 billion in January.	▪ Despite the small inflow, foreigners net sold CNY16.5 billion Chinese government bond, first time since February 2019. The recent outflows from government bond may be the result of rising volatility in the global financial market driven by inflation fear as well as resurgence of geopolitical tensions. Given the FTSE Russel just unveiled the details to add Chinese government bonds into the global benchmark index, it is still too early to predict a reverse of inflow trend.
▪ Hong Kong's PMI for private sector rose further from 50.2 in February to 50.5 in March. Apart from the relatively mild decrease in new orders, new business from Mainland China and overall new export orders, it is encouraging to see the staffing levels increase at the fastest pace since June 2011.	▪ The stabilization of business activity was mainly attributable to the rebound of external demand and the improvement in local demand amid the subsided local infections, the relaxation of social distancing measures and vaccine roll-out. This in turn helped to ease the downward pressure on the labour market and reinforces our view that the unemployment rate will peak in the range of 7%-8% in 1H before coming off gradually in 2H. With the business activities stabilizing and hiring sentiments improving, it confirms that the economy is on the right track for recovery. Elsewhere, though both purchase costs and staff costs increased, the moderate growth looks unlikely to add much inflationary pressure due to the high competition and the offering of discounts.
▪ Hong Kong's overall housing price index rose for the second consecutive month and advanced at the fastest pace since January 2020 by 2.97% yoy in February. As of 28 March, another secondary home price tracker CCL index dropped 0.3% on weekly basis but still hovered around the highest since last August. ▪ Approved new residential mortgage loans grew for the sixth consecutive month by 61.1% yoy in February. Some commercial banks cut the new mortgage rates as housing market has regained momentum. ▪ Housing transaction volume increased for the 10th	▪ The resilience of the housing market has been mainly supported by solid pent-up demand (the response to some new home launches was strong), low interest rate environment, receded local infections and scarce short to medium term supply. On the supply front, the Rating and Valuation department forecasted housing completions to be 18230 and 19980 units respectively in 2021 and 2022, down from 20890 units in 2020. Worse still, due to the disruption from Covid-19, housing construction plunged 36.2% yoy to 11800 units in 2020, the lowest since 2011. ▪ However, since the CCL index has not yet shown a clear uptrend, we will closely monitor whether the upside of the housing market will be capped by the sliding housing rental

consecutive month and surged by 92.4% yoy to 7444 deals in March, the strongest since May 2019.	(down for the 17th consecutive month in February) and the negative wealth effect amid stock market correction. On the other hand, we expect the housing market to remain divided in the near term. Specifically, the market of small to medium homes (below 100 square meters) and luxurious homes (above 160 square meters) will likely outperform that of medium to large homes (100-159.9 square meters) especially if the social distancing measures and the travel restriction measures are relaxed. In conclusion, we hold onto our view that housing price index will grow by up to 5% yoy by end of this year.
▪ The daily average visitor arrivals during the Easter and Qingming holiday reached 19,914, up 53.8% from that during Lunar New Year holiday but down 17% from that of March.	▪ With travel activities resuming normalcy in Mainland China after the Lunar New Year holiday and Macau easing the travel restrictions on some Mainland tourists, inbound tourism has regained steam from March. However, Macau appeared to have not been the first choice for the Mainland visitors during holidays. We will have more clues from the data regarding visitor arrivals during Labor Day holiday. At this juncture, we still think any strong recovery of the inbound tourism is unlikely until further re-opening.

RMB	
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▪ The USDCNY continued to be traded in a familiar range last week. However, RMB weakened against its major trading partners last week.	▪ The outflows in China's government bond and equity together with weak sentiment in the offshore dollar bond market about the earning delays by China's state-owned bad debt manager Huarong Asset Management may cloud the near-term outlook of RMB.

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