Greater China – Week in Review

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Highlights: Sword and Shield

Tommy Xie
Xied@ocbc.com

Carie Li
Carierli@ocbcwh.com

Not surprisingly, China dominated the headline of global geopolitics last week. China has been placed at the center of G7 leaders' meeting over the weekend. This contrasted with last year's online G7 Summit when China did not appear in the G7 statement at all.

Although China criticized the innovation and competition bill passed by the US Senate last Tuesday is full of Cold War mentality and Chinese embassy in London said that world orders not ruled by small numbers of countries in reaction G7 meeting, **the communication between China and US seems to have improved**. Following Thursday's conversation between China's Commerce Minister Wang Wentao and US Commerce Secretary Gina Raimondo on trade and investment, China's director of the Central Foreign Affairs Commission also held a talk with US Secretary of State Anthony Blinken last Friday.

The most notable event last week was China's enact of new anti-foreign sanction law, which showed that China has stepped up its efforts to establish deterrence against increasing foreign sanctions after China's Ministry of Commerce issued the rules on China's blocking statute on 9 Jan 2021.

China borrowed the concept of blocking statue from the EU which created the blocking statue to protect EU operators from extra territory application of third country law as the EU considers such effect to be contrary to international law.

RMB remained resilient with the USDCNY failed to break the 6.40 firmly despite rebound of broad dollar. But given we are approaching dividend payment season; we will take a more cautious approach towards RMB in the near term.

Although China's blocking statute showed that China has taken a more proactive approach to deal with the foreign sanctions, the rule is considered as departmental rule, which is at a relatively low-level in the Chinese legal system according to law experts in China. As such, the latest anti foreign sanction law is a higher-level legislation. This new national law, which may be one of the most important shields to protect Chinese operator's interests, may be the catalyst for China and US to restart negotiation.

Elsewhere, the latest survey from the European Union Chamber of Commerce in China showed that nearly 60% European companies plan to expand their business in China this year, up from 51% in 2020.

Domestically, PBoC Governor Yi Gang said the shift towards a greener lifestyle is inflationary due to green premium. However, this structural inflationary pressure could be partially offset by structural deflationary force such as aging problem. Yi expected average CPI for China this year to be below 2%, which is way below government's target despite the rebound of PPI.

Yi's forecast on CPI was also confirmed by the May inflation data. CPI has been declining on mom basis for three consecutive months due to decline of food prices driven by pork prices. Although base effect is in favor of further rebound of CPI, the persistent downward pressure on pork prices is likely to keep China's CPI well below government target this year. As such, we expect limited impact of inflation on monetary policy setting for now.

The deceleration of stock of aggregate social financing growth to 11% from 11.7% indicated that China is exiting pandemic era credit stimulus. The resilient on balance sheet lending on the back of medium to long term loan growth showed that demand for credit remained strong. The outlook of China's credit growth will still largely hinge on government policy, which will adjust the supply side factors. China's chairman of banking and insurance regulator Guo Shuqing said one of the key tasks currently is to increase the share of direct financing such as equity and bond financing in China's total financing.

In **Hong Kong,** the HKMA launched "Fintech 2025", a new strategy to promote Hong Kong's fintech development. This reinforces that Hong Kong has prioritized the development of Fintech in an effort to promote financial inclusion and support banks to provide tailor-made services based on the digital footprints. Among the five key areas of the strategy, what caught the market's attention the most has been the study of e-HKD. In addition to supporting the technical testing of e-CNY in HK and working on other digital currency projects, the HKMA has set up a working group to study the technology and regulatory issues related to an e-HKD and will have a conclusion in about 12 months. However, given the complexity of issuing digital currency, the idea may take some time to materialize. Some may have been worried that the study of e-HKD is to pave way for changes in the linked exchange rate system. HKMA's Deputy CE clarified that e-HKD will just be an electronic version of banknote and will not have any implication on the linked exchange rate system. In our view, until RMB is fully convertible and China's capital account is totally opened up, e-RMB is unlikely to accelerate RMB internationalization while HKD is also unlikely to be re-pegged to the RMB.

Elsewhere, a secondary home price tracker CCL index rose by 0.28% on weekly basis as of 6 June, only 2.52% away from historical high. Owing to the strong rebound of the housing market, Hong Kong's stamp duty collections for property surged by about 62% mom to HK$1.41 billion in May, reaching the strongest in six months. Should stamp duty collections for property increase notably this year, we may see a narrower than expected fiscal deficit for FY2021.

Key Events and Market Talk	
Facts	**OCBC Opinions**
▪ China's lawmakers approved the "anti-foreign sanction law" on 10 June, which has officially become national law.	▪ The enact of new anti-foreign sanction law showed that China has stepped up its efforts to establish deterrence against increasing foreign sanctions after China's Ministry of Commerce issued the rules on China's blocking statute on 9 Jan 2021. ▪ China borrowed the concept of blocking statue from the EU which created the blocking statue to protect EU operators from extra territory application of third country law as the EU considers such effect to be contrary to international law. China's block statue will serve the similar purpose to counter long arm jurisdiction. ▪ Although China's blocking statute showed that China has taken a more proactive approach to deal with the foreign sanctions, the rule is considered as departmental rule, which is at a relatively low-level in the Chinese legal system according to law experts in China. As such, the latest anti foreign sanction law is a higher-level legislation. This deterrence may serve as the catalyst for China and US to restart negotiation.
▪ The latest survey from the European Union Chamber of Commerce in China showed that nearly 60% European companies plan to expand their business in China this year, up from 51% in 2020.	▪ This shows that commitment from European companies in China was not disrupted by the recent heightening geopolitical risks.
▪ HKMA launched "Fintech 2025", a new strategy to promote Hong Kong's fintech development. There will be five key areas. First, promoting all-round adoption of fintech by HK banks. Second, future-proofing HK for central bank digital currency. Third, creating the next-generation data infrastructure to facilitate consent-based data sharing. Fourth, increasing the supply of fintech talent. Fifth, providing financial and policy supports for the fintech ecosystem.	▪ This reinforces that Hong Kong has prioritized the development of Fintech in an effort to promote financial inclusion and support banks to provide tailor-made services based on the digital footprints. On a positive note, a survey conducted by KPMG China, HSBC and GS1 Hong Kong shows that 65% of Hong Kong consumers have become more comfortable using digital payments during the Covid-19 pandemic. This lays a strong foundation for fintech development and the further integration with the rest of Greater Bay Area. ▪ On the other hand, according to the strategic plan, in addition to supporting the technical testing of e-CNY in HK and working on other digital currency projects, the HKMA has set up a working group to study the technology and regulatory issues related to an e-HKD and will have a conclusion in about 12 months. However, given the complexity of issuing digital currency, the idea may take some time to materialize. ▪ Some may have been worried that the study of e-HKD is to pave way for changes in the linked exchange rate system. HKMA's Deputy CE clarified that e-HKD will just be an electronic version of banknote and will not have any implication on the linked exchange rate system. In our view, until RMB is fully convertible and China's capital account is totally opened up, e-RMB is unlikely to accelerate RMB internationalization while HKD is also unlikely to be re-pegged to the RMB.
▪ Hong Kong: as compared to the seventh batch of iBond, the number of subscriptions and the	▪ Given the low interest rate environment, the prospects of rising inflation rate and the absence of mega IPOs, the eighth

subscription amount for the eighth batch rose by 42% and 57% respectively to 717k and HK$54.58 billion, representing an oversubscription rate of 1.7 times. ▪ A new batch of silver bond is said to be launched in the near term with the total issue size no less than HK$24 billion. The eligible age for subscribing silver bond will be lowered from 65 to 60.	batch of iBond has received strong response. The same would likely be true to the upcoming batch of silver bond. This may help to promote the development of the retail bond market in Hong Kong.
▪ Hong Kong's Financial Secretary Paul Chan hinted that the details of HK$5,000 e-consumption vouchers will be announced later this month and the registration will start in July. ▪ Hong Kong Airline announced furlough plan and hinted plans to cut jobs albeit without details.	▪ With the border remaining closed, both the aviation and tourism sectors may remain in the doldrums and in turn constrain the improvement of the labor market and the overall economy. On a positive note, the upcoming launch of e-consumption vouchers may help to restore local consumer confidence. Besides, owing to the public and private sectors' efforts to encourage inoculation, the vaccination program shows signs of acceleration with the share of population receiving at least one jab of Covid-19 vaccine rising by 3.6 percentage points to 22.3% from 1 June to 11 June, as compared to an increase of 2.1 percentage points during 22 May to 1 June.
▪ Hong Kong's CE Carrie Lam stated that the government has already identified sufficient land to meet the 10-year public housing supply target.	▪ In fact, the Covid-19 pandemic has worsened the income inequality as the low-end services sectors saw a sharp increase in unemployment rate whereas the rich have become richer given the increase in savings and the surge in asset prices including private home prices. Against this backdrop, it may be imminent for the government to increase the public housing supply.

Key Economic News

Facts	OCBC Opinions
▪ China's credit expansion continued to moderate in May. Aggregate social financing increased by CNY1.92 trillion, short of market expectation. The growth of stock of social financing decelerated to 11% from 11.7% in April, lowest since February 2020.	▪ This indicated that China is exiting pandemic era credit stimulus. Broad money supply M2 accelerated slightly to 8.3% from 8.1% although M1 slowed further to 6.1% from 6.2%. On balance sheet lending remained resilient on the back of medium to long term loan growth. This showed that demand for credit remained strong. The outlook of China's credit growth will still largely hinge on government policy, which will adjust the supply side factors.
▪ China's PPI surged to 9% yoy in May, highest since August 2008. However, China's CPI remained soft up by 1.3% yoy in May.	▪ Given there is no signs of peaking of commodity prices, PPI may face pressure to test higher again. However, China's CPI remained soft up by 1.3% yoy in May. Nevertheless, CPI has been declining on mom basis for three consecutive months due to decline of food prices driven by pork prices. Although base effect is in favor of further rebound of CPI, the persistent downward pressure on pork prices is likely to keep China's CPI well below government target this year. As such, we expect limited impact of inflation on monetary policy setting for now.
▪ China's trade data remained strong. Exports in dollar term grew by 27.9% yoy while imports surged by 51.1% yoy in May. China's trade surplus widened to US$45.53 billion from US$42.85 billion. Total trade in May was at US$482.3 billion, third highest in record.	▪ The share of ASEAN's total trade with China increased to 14.8% in the first five months, up from 14.7% in the first four months, reinforcing ASEAN's position as China's largest trading partner. However, China's demand weakened despite surge in imports of commodity by value due to base effect. China's imports of crude oil by volume fell by 14.6% yoy in May, a sign

	of diminishing demand amid rising commodity prices.
▪ A secondary home price tracker CCL index rose by 0.28% on weekly basis as of 6 June, only 2.52% away from historical high. ▪ Hong Kong's stamp duty collections for property surged by about 62% mom to HK$1.41 billion in May, reaching the strongest in six months.	▪ Zooming in, Double Stamp Duty collections for residential property transactions increased by 74.9% mom to HK$1.14 billion. This indicates rebound in investment demand. On the other hand, Buyer's Stamp Duty collections, which has been an indicator of foreigners' demand, also grew 28.2% mom to HK$0.24 billion. However, the growth may have been constrained by the ongoing border controls. In other words, once the border reopens, we may see a return of foreign demand and demand of Mainland buyers. ▪ Elsewhere, the government expects the stamp duty hike on stock trading effective from 1 Aug to result in an HK$8 billion increase in government revenue for FY2021. Meanwhile, according to Budget 2021-22, the government merely estimates an HK$3 billion increase in stamp duties for FY2021 from the preceding fiscal year. As such, should stamp duty collections for property increase notably this year, we may see a narrower than expected fiscal deficit for the current fiscal year.
▪ Macau's average housing price rose 5.2% mom or 6% yoy to MOP103,653/square meter in April. During the same month, housing transaction volume grew for the fourth consecutive month and was up by 20.7% yoy to 584 deals while approved new residential mortgage loans increased by 17.1% yoy to MOP2.36 billion.	▪ As the two pillar industries including gaming and tourism continued to regain momentum, the housing market also gained further steam. The low-rate environment, the well-contained local epidemic, the new home launches and limited long-term housing supply may have supported the housing market as well. ▪ That said, we still think that the upside of the housing market may be limited due to several reasons. First, recent virus resurgence in China in particular Guangdong province may have slowed down the recovery of Macau's two crucial industries and therefore hit housing market demand. Notably, the unemployment rate rose to the highest since 2010 during the three months to April. Second, the investment demand may remain suppressed by the housing control measures and the suppressed housing rents. Third, the buying power of the first-home buyers, who have become the main players in the housing market since 2018, may not be so strong as that of investors. Due to policy changes, the share of local first-home buyers in total local homebuyers has remained around 80% since March 2018. Fourth, since the government plans to divide the residential market into five tiers, including social housing, economic housing, "sandwich class" housing, elderly housing and private housing, the demand for private homes may be diverted in the longer term. ▪ In conclusion, we hold onto our view that average housing price may grow by up to 5% yoy as of end-2021 depending on the economic recovery pace.

Treasury Research & Strategy

OCBC Greater China Research

Tommy Xie
Xied@ocbc.com

Carie Li
Carierli@ocbcwh.com

Co.Reg.no.:193200032W