Greater China – Week in Review

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Highlights: Containing tail risks

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Risk sentiment was buoyed last week in China on the back of the launch of PBoC new facility to support carbon reduction in the beginning of the week and smooth rollout of Party resolution on Thursday despite weak economic data and rising inflation concern.

China's Central Committee of the Communist Part of China (CPC) concluded its sixth plenary session last week. The meeting adopted a landmark resolution, third in Party's 100-year history. Unlike the previous two (1945 resolution and 1981 resolution), which examined the mistakes by the predecessors, the latest resolution is mainly on the achievements and historical experience of Party's 100-year history.

The 2021 resolution showed that CPC is more confident in seeking a development path based on China's own culture and history. The smooth rollout of the resolution also indicated that the consensus has been built within Party elites, which will give President Xi mandate to lead the soul searching for the Party for the next 100 years to answer, "why we were successful in the past and how we can continue to succeed in the future."

From market perspective, the smooth political transition will give China more room to contain those tail risks to strike a balance between breaking new ground and remaining committed to self-reform.

Coincidently, the recent piecemeal news about property market reinforced market optimism that China will strike a balance between containing tail risk and keeping moral hazard in check. It was reported that some tier-1 cities have sped up the disbursement of mortgage to support genuine demand in the property market.

The US-China relationship returned to the spotlight after both climate delegations found the common ground in Glasgow ahead of the confirmed virtual meeting between President Biden and President Xi on Tuesday morning Asian time.

The trick of "carrot and stick" for US-China bilateral relationship remains in play. On one hand, US continued to clamp down on tech cooperation with China in the name of national security. For example, it was reported over the weekend that White House discouraged Intel from expanding its production in China. On the other hand, both countries are still actively looking for common ground. The upcoming virtual meeting between Biden and Xi is likely to focus on common concern such as Taiwan issue, climate cooperation and bilateral trade.

China's central bank announced to roll out a new carbon reduction supporting tool. The low-cost flexible nature of this tool will play a role of structural easing, This may again reduce the expectation on RRR cut.

On inflation, the widening gap between PPI and CPI to a record of 12% called for more policy supports to SMEs. Nevertheless, given China is relying more on structural monetary tool and fiscal policy, the latest inflation reading is unlikely to change market expectation on monetary policy.

The acceleration of local government bond issuance in October helped put a brake on the deceleration of aggregate social financing. However, the sharp increase of CNY1.11 trillion fiscal deposits showed local governments remained cautious in terms of expenditure.

Hong Kong Financial secretary Paul Chan sees the fiscal deficit will be much lower than the estimate figures of HK$101.6 billion in the beginning of 2021, implying a more stable economic recovery path. While the 1H21 was somewhat bumpy due to lack of visitor spending and limited cross border travel between Hong Kong and Macau as well as Shenzhen, nevertheless, government revenue gained further on 1) record high of HK$40 billion revenue from land sales 2) higher than expected property and stock stamp duty and 3) gradual improved economic condition.

On economy front, the final reading of 3Q21 GDP growth remained unchanged at 5.4% yoy. Moving into the 4Q21, the main economic growth drivers remain to be local consumption supported by the well contained local epidemic and the continuous improving labour market together with the e-consumption voucher scheme. Overall, those shall help to restore consumer/business sentiments in the 2021. Still, a full capacity of recovery would require border reopening effects and further relaxation of social distancing measures. In a nutshell, we tip a 6% GDP growth for 2021, assuming partial border reopening may start in 4Q21, while we stay cautious to the downside risks including lingering pandemic uncertainty, US-China tensions, China's regulatory risk, and slower-than-expected vaccination in Asia.

Key Events and Market Talk	
Facts	**OCBC Opinions**
▪ China's central bank announced to roll out a new carbon reduction supporting tool. The establishment of the new facility will mobilize more social funds to promote carbon emission cuts according to the PBoC.	▪ There are three important features of this tool. First, qualified financial institutions can apply for the funding from the PBoC after the loans for carbon reduction are made. The embedded flexibility is similar to the relending tool PBoC provided in the beginning of the pandemic. Second, the 1-year funding cost is only at 1.75% much lower than that of 1-year MLF. Third, there is no specified quota of this facility. Overall, the flexible nature of this tool will play a role of structural easing, which could support risk sentiment in China.
▪ Hong Kong Financial secretary Paul Chan sees the fiscal deficit will be much lower than the estimate figures of HK$101.6 billion in the beginning of 2021, implying a more stable economic recovery path.	▪ While the 1H21 was somewhat bumpy due to lack of visitor spending and limited cross border travel between Hong Kong and Macau as well as Shenzhen, nevertheless, government revenue gained further on 1) record high of HK$40 billion revenue from land sales 2) higher than expectation from property and stock stamp duty and 3) gradual improved economic condition. Still, Chan mentioned because of countercyclical fiscal measure, the increased in revenue would be still difficult to compensate the continued increases in recurrent expenditures as social welfare, education and medical had already increased by 62%, 25% and 53% over the past five years.
▪ Spot USDHKD rose to the highest of 7.7929 on Nov 12.	▪ Along with the general upward momentum in US treasury yields and the stronger DXY, USDHKD forward edged down further to -46 last Friday. This together with the lack of seasonal factors and specific flows into the HKD market, the HKD spot to drop from a nearly three months low of 7.7900 against the US dollar. ▪ Looking ahead, the HKD market may remain to trade narrow while HIBOR fixing shall be considered relatedly stable. In facts, the recent downward move in real yields mainly due to higher inflation expectations rather than a direct reflection of a shift in the growth outlook. As such, it is difficult to say the bias for the inflation concern and the strong dollar to be sustained and the gap for the USD market and the central bank prospect in term of pricing may be not particularly wide. In other words, it is difficult for the HK-US rate differential to widen significantly in the near term. We expect USDHKD continues to hover below 7.80 in the short term.

Key Economic News	
Facts	**OCBC Opinions**
▪ China's CPI accelerated to 1.5% yoy in October from 0.7% yoy in September while PPI surged to 13.5% yoy, highest in record.	▪ On sequential basis, CPI rose by 0.7% mom, higher than seasonal pattern. The stronger than expected mom reading was mainly driven by both rising food prices and non-food prices. Food prices rose by 1.7% mom due to surging vegetable prices as a result of heavy rain in some parts of China. ▪ The rise of non-food prices was mainly driven by rising energy prices with transportation lifted CPI up by 0.8%. Although there is early signs of passthrough effect from higher PPI to CPI, the stable core CPI, which grew by 0.1% mom and 1.3%

	yoy, showed the inflation is not a key concern for policy makers. ▪ Looking ahead, we expect CPI to rise further to above 2% yoy in November due to base effect. Nevertheless, it is likely to fall below 2% in the coming months. ▪ The widening gap between PPI and CPI to a record of 12% called for more policy supports to SMEs. Nevertheless, given China is relying more on structural monetary tool and fiscal policy, the latest inflation reading is unlikely to change market expectation on monetary policy.
▪ China's new Yuan loan increased by CNY826.2 billion in October, CNY136.4 billion more than the same time last year. ▪ Aggregate social financing increased by CNY1.59 trillion, CNY197 billion more than the same time last year. ▪ Stock of aggregate social financing grew by 10%, intact from that in September. ▪ M2 growth, however, reaccelerated to 8.7% yoy from 8.3% while M1 growth decelerated to 2.8% yoy from 3.7% yoy.	▪ Although new Yuan loan expansion in October was faster than October last year, the loan structure was not as good as before. The medium to long term loan was CNY176 billion short of that in Oct 2020 led by the weaker demand from corporate sectors. ▪ The issuance of government bond net increased by CNY616.7 billion, CNY123 billion more than that in October 2020. The acceleration of local government bond issuance in October helped put a brake on the deceleration of aggregate social financing. However, the sharp increase of CNY1.11 trillion fiscal deposits showed local governments remained cautious in terms of expenditure. ▪ The rebound of M2 growth was due to increase of non-bank financial institutions' deposits. The deceleration of M1 growth showed the falling appetite for investment due to rising costs
▪ The final reading of 3Q21 GDP growth remained unchanged at 5.4% yoy.	▪ Moving the 4Q21, the main economic growth drivers remain to be local consumption supported by the well contained local epidemic and the continuous improving labour market together with the e-consumption voucher scheme. Overall, those shall help to restore consumer/business sentiments in the 2021. Still, a full capacity of recovery would require border reopening effects and further relaxation of social distancing measures. In a nutshell, we tip a 6% GDP growth for 2021, assuming partial border reopening may start in 4Q21, while we stay cautious to the downside risks including lingering pandemic uncertainty, US-China tensions, China's regulatory risk, and slower-than-expected vaccination in Asia.

RMB	
Facts	**OCBC Opinions**
▪ The USDCNY consolidated below 6.4 for most of the time.	▪ The resilient dollar index failed to stop RMB from gaining further. The rising expectation on partial removal of tariff amid the virtual meeting between Biden and Xi likely to support RMB further in the near term.

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