OCBC TREASURY RESEARCH

Greater China – Week in Review

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Highlights: fears over tightening eased

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Fears over pre-maturing tightening of monetary policy eased last week following the dovish comments from the PBoC and slightly weaker than expected 1Q economic data.

China's government bonds outperformed in April despite the first outflow by foreign investors in two-year in March. 10-year yield fell to 3.16% from 3.23% in the beginning of April.

In the press conference last week, the head of PBoC monetary policy department reckoned the possible impact of tax payment and local government bond issuance on domestic liquidity in April. PBoC will continue to ensure interbank liquidity remain appropriate abundant to create favorable environment for the issuance of local government bond.

Meanwhile, PBoC injected CNY150 billion medium term liquidity via MLF ahead of maturing CNY100 billion MLF and CNY56.1 billion TMLF. It looks like PBOC is phasing out TMLF as they rely more on re-lending and re-discount to support the demand from smaller companies. Nevertheless, MLF rollover is actually higher.

On economic data, despite the record 18.3% yoy growth in 1Q, China's economy only grew by 5% yoy on two-year average after adjusting for base effect, still below potential growth. (For details, pls click here)

What is encouraging is China's improving domestic demand. After adjusting for base effect, retail sales grew by 4.2% yoy on two-year average in the first quarter, up from 3.2% yoy on two-year average in the first two months of 2021. This was also echoed by strong import data in March, which rose by 38.1% yoy beating market expectation.

China's credit growth is a double-edged sword. On one hand, the new Yuan loan increased by CNY7.91 trillion in 1Q 2021, higher than CNY7.25 trillion in 1Q 2020. The record high on balance sheet lending in the first quarter will further underpin growth in the near term.

On the other hand, PBoC has reiterated that it plans to match this year's M2 growth and aggregate social financing growth to nominal GDP growth, this implied that China's aggregate social financing may slow down further to 11-12% range based on the assumption of 11-12% nominal GDP growth.

What is worrying is the slower than expected vaccination rollout due to relatively low willingness. This may also cap PBoC's room to remove prior easing policies. **We think China will not hike interest rate in the next two quarters.**

For this week, market will continue to watch out for the collaboration between US and China on climate change after a fruitful discussion between top climate officials in Shanghai last week. However, the US-China relationship is likely to be clouded by the upcoming bipartisan "Strategic Competition Act of 2021". In addition, market will also seek more clarity from Huarong's delay of earnings, which has led to a contagious dollar bond rout last week.

In **Hong Kong,** owing to the stock market rally and the broad dollar weakness, USDHKD spot once dropped below 7.7700. However, the downtrend did not sustain as the sluggishness of HKD demand remains intact. We hold onto our view that the currency pair will trade sideways in the range of 7.77-7.79 in the near term.

On the economic front, the government announced to extend the social distancing measures for another two weeks till 28 April while hinting about the forming of "vaccination bubbles" as local infections subsided further recently. Specifically, if more people get vaccinated, the businesses that have been forced to close will be allowed to reopen with conditions while the restriction on restaurants including the maximum number of diners per table and the dine-in hours will be relaxed. For 6 types of businesses that have been forced to close for about 4 months, the government will launch another round of subsidies under "Anti-epidemic fund 4.0" which involves HK$0.4 billion. For inbound tourism, tourists who have been vaccinated will be subject to shorter period of mandatory quarantine. Also, from mid-May, mandatory quarantine will be exempted for Mainland tourists. Should local pandemic remain well contained, the government may gradually ease the containment measures. This will pave way for further economic recovery. Still, significant relaxation and stronger recovery may require faster vaccination rate which reached merely 8.66% as of 15 April. We will closely monitor whether the vaccination incentives will help to accelerate the vaccine rollout and warrant a safe border reopening.

In **Macau,** the city's Chief Executive Ho Iat Seng stated that the government will work with the PBoC to study the feasibility of issuing a digital currency. The move sparks concern that Macau's gaming sector in particular the high-stakes gambling will take a further hit. On a positive note, it may facilitate tourist spending and casual gambling. Details need to be closely monitored to evaluate the impact.

Key Events and Market Talk

Facts	OCBC Opinions
▪ PBoC injected CNY150 billion medium term liquidity via MLF ahead of maturing CNY100 billion MLF and CNY56.1 billion TMLF.	▪ Although the liquidity injection may be short of some people's expectation, we think it is a positive sign that PBoC is fully aware of the impact of tax payment and local government bond issuance in April on domestic liquidity as MLF rollover is actually higher. Nevertheless, it looks like PBOC is phasing out TMLF as they rely more on re-lending and re-discount to support the demand from smaller companies.
▪ PBoC monetary policy department head reckoned the possible impact of tax payment and local government bond issuance on domestic liquidity.	▪ PBoC will continue to ensure interbank liquidity remain appropriate abundant to create favorable environment for the issuance of local government bond.
▪ Hong Kong government announced to extend the social distancing measures for another two weeks till 28 April while hinting about the forming of "vaccination bubbles" as local infections subsided further recently.	▪ Specifically, if more people get vaccinated, the businesses that have been forced to close including bars and night clubs will be allowed to reopen with conditions while the restriction on restaurants including the maximum number of diners per table and the dine-in hours will be relaxed. For 6 types of businesses that have been forced to close for about 4 months, the government will launch another round of subsidies under "Anti-epidemic fund 4.0" which involves HK$0.4 billion. ▪ For inbound tourism, the mandatory quarantine may be shortened to no more than 7 days for low-risk areas like Singapore should the arrivals have received two jabs. From mid-May, mandatory quarantine will be exempted for Mainland tourists. From end-April, the return2hk scheme will be extended to HK residents returning from Chinese provinces other than Guangdong. ▪ Should local pandemic remain well contained, the government may gradually ease the containment measures. This will pave way for further economic recovery in 1H. Still, significant relaxation and stronger recovery may require faster vaccination rate which reached merely 8.66% as of 15 April, among which about 56% receiving the Sinovac vaccine and the rest receiving the BioNTech vaccine. We will closely monitor whether the vaccination incentives will help to accelerate the vaccine rollout and warrant a safe border reopening.
▪ Hong Kong: The Improving Electoral amendment Bill 2021 passes its first reading on Apr 14.	▪ The government expects to hold the Legislative Council election on 19 December. This looks unlikely to result in any renewed social unrest. Instead, the political risk to be watched out for is the response from foreign countries in particular the US.
▪ Macau's Chief Executive Ho Iat Seng stated that the government will work with the PBoC to study the feasibility of issuing a digital currency. Ho said the introduction of a digital currency aims to improve the effectiveness in curbing money laundering, tax evasion and terrorism financing.	▪ The move sparks concern that Macau's gaming sector in particular the high-stakes gambling which has been crippled by Covid-19 and the China's tightened grip on cross-border gambling will take a further hit. Notably, the share of VIP revenue in total gaming revenue hovered around record low and printed 38.6% in 1Q 2021. On a positive note, it may facilitate tourist spending and casual gambling. Still, details about the plan need to be closely monitored to evaluate the impact on Macau's gaming sector, tourism sector and the whole economy.

Key Economic News

Facts	OCBC Opinions
▪ China's aggregate social financing increased by CNY3.34 trillion in March while new Yuan loan increased by CNY2.73 trillion. ▪ M2 decelerated to 9.4% in March from 10.1% in February while M1 slowed down slightly to 7.1%.	▪ The growth of aggregate social financing (stock) decelerated to 12.3% yoy in March from 13.3% yoy in February due to base effect as China rolled out monetary stimulus in the first quarter of 2020 to support the economy. ▪ Nevertheless, the absolute level of credit expansion remained sizable in the first quarter. Aggregate social financing rose by CNY10.23 trillion in the first quarter this year. Although it is shy of record high of CNY11.11 trillion increase in the first quarter of 2020, it is the second highest level in record. In addition, the new Yuan loan increased by CNY7.91 trillion in 1Q 2021, higher than CNY7.25 trillion in 1Q 2020. The record high on balance sheet lending in the first quarter showed that Chinese economy continued to enjoy the strong support. ▪ China's equity market also played an increasingly more important role in financing. Companies raised CNY246.7 billion via equity offering in the first quarter, much higher than CNY125.6 billion for the same period of 2021. ▪ Looking ahead, given PBoC has reiterated that it plans to match this year's M2 growth and aggregate social financing growth to nominal GDP growth, this implied that China's aggregate social financing may slow down further to 11-12% range based on the assumption of 11-12% nominal GDP growth.
▪ China's export rose by 30.6% yoy in March while import rose by 38.1% yoy beating market expectation. ▪ As a result of stronger imports, China's trade surplus narrowed to US$13.8 billion.	▪ The stronger than expected imports was mainly attributable to three factors. First, the import bill was inflated by higher commodity prices. China's imports of iron ore and crude oil by value surged by 112.51% yoy and 32.73% respectively as compared to 18.86% yoy and 20.82% yoy rise by volume. Second, China continued to stock up raw materials for electronics supply chain. China's imports of electronics integrated circuit rose by 23.27% yoy. Third, the higher domestic demand was also supported by improving PMIs recently and higher expectations on improving manufacturing investment.
▪ Hong Kong: The number of bankruptcy petitions presented increased 44% mom to 779 in March 2021, the highest since last June. The number of compulsory winding-up petitions presented rose 16% mom to 44 in March.	▪ The month-on-month increase may be partially due to low base associated with Lunar New Year holiday. The expiry of Employment Support Scheme and the stringent social distancing measures since last December were also to blame as these two factors have pushed the overall unemployment rate to nearly 17-year high and might have forced small businesses to go bust. ▪ On a positive note, March's PMI showed that business activity stabilized and hiring sentiments improved owing to receded local infections and external demand revival. Besides, the HKMA together with the Banking Sector SME Lending Coordination Mechanism announced to extend the Pre-approved Principal Payment Holiday Scheme for another six months to October 2021. Should border reopen on a broad basis in 2H, coupled with the launch of e-consumption coupons, business condition and the employment may improve further. As such, we think the number of bankruptcy and compulsory winding-up petitions presented may grow steadily rather than rapidly in the coming months.

▪ Macau's average housing price fell by 4.5% mom or 3.8% yoy to MOP94,205/square meter in February, the weakest since last March. Housing transaction volume dropped by 21% mom to a one-year low of 358 deals in February. During the same month, approved new residential mortgage loans also slid by 24.9% mom to MOP2.13 billion, the lowest since last April.	▪ The further correction of the housing market was mainly due to Lunar New Year holiday effect, the sluggish recovery of local economy and the absence of new home launches. The downside is expected to be limited given the persistent imbalance between supply and demand. On the demand side, it may be supported by the low interest rate and the improving economic growth outlook. On the supply side, the scarce land supply and labour supply as well as the high material prices led to high construction costs. Also notable is that there has been none housing completion while the housing starts totalled merely 231 units during the first two months of this year. In particular, larger homes supply may be relatively low in the coming years. ▪ Having said that, we still see limited upside of the housing market where the main players have changed from investors to end-users. Specifically, the percentage share of local first homebuyers and local homebuyers holding more than one residential property in total local homebuyers has stayed around 80% and 3% respectively since March 2018. The sliding housing rental associated with a decrease in non-resident workers will also remain a drag. In a nutshell, we hold onto our view that average housing price will grow by up to 5% yoy by end of this year.

RMB	
Facts	**OCBC Opinions**
▪ RMB rebounded against the dollar last week with the USDCNY ended the week below 6.55.	▪ The rebound of RMB against the dollar was mainly the result of weaker broad dollar. However, RMB weakened slightly against its major trading partners. Given the ongoing tension between US and China ahead of the discussion about new Senate bill targeting China, RMB is likely to remain the function of broad dollar movement.

Treasury Research & Strategy

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