Greater China – Week in Review

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Highlights: more flexible monetary policy

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China's key October economic data surprised on the upside. Despite concerns about the disruption from power outrage, the rebound of industrial production in October was mainly attributable to three factors including supportive external demand, strong development of high-tech manufacturing and China's swift move to boost energy supply.

Long story short. The latest data just reinforced the benefit of being super large economy. It could be more resilient than people think. China's central bank shared the same optimism. In its 3Q monetary policy report, PBoC used the word "resilient" nine times to show its upbeat outlook.

Nevertheless, PBoC also gradually shifted its focus towards containing the tail risk highlighting the importance of bottom-line thinking approach to ensure financial stability. High quality growth is important to defuse financial risks as mentioned in the report. This opens the door for more flexible policy setting.

On monetary policy, PBoC tweaked its language to enhance stability of credit growth. On property market, although PBoC reiterated not to use property market as short-term stimulus tool, it will work together with respective regulators and local government to ensure healthy development of property market and protect the legitimate consumer rights of property buyers. Those two changes implied the increasing chance of marginal structural easing in the coming months.

Nevertheless, PBoC is likely to stick to its own script when it comes to the monetary policy setting as PBoC is confident that its monetary policy will not be influenced by the withdrawal of monetary easing in the developed economies.

The recent reform of deposit rate ceiling starting in June has lowered the long term funding costs for banks significantly. The weighted average deposit rate fell by 28bps in September for the level in May, one month before the reform. Meanwhile, the structure of deposit rate also changed with percentage of long term deposit rate fell. The falling funding costs will give banks room to pass the cost savings to corporates.

On currency, against the backdrop of stronger RMB, PBoC said it guided financial institutions to provide currency hedging service to smaller and micro companies and also lowered the hedge costs for them. PBoC may gradually to allow a more flexible currency.

In addition, it was reported that China's FX regulator has asked commercial banks to cap the size of their prop trading accounts to limit financial intuitions' capacity to speculate on the currency.

On US-China relationship, although there are no concrete announcements from the Xi-Biden virtual meeting on 16 November, we see the three and half hours meeting as a positive development. In addition, President Xi's comment on Taiwan issue that China has the patience may also reduce market jittery about the imminent risk of escalation to conflict.

In **Hong Kong,** HKEx announced to lower the bar for its secondary listing system, effective on the Jan 1 of 2022. Specifically, this would give the green light to those Chinese companies with no weighted voting rights structure (WVR), neither have met the conditions for variable interest entity (VIE) structure in the past for dual listing. Under the change, Chinese companies will no longer require proving themselves as an "innovative company", while the minimum market capital for listing would be much lower than the existing mechanism. Overall, the new framework may further strengthen Hong Kong's status as an ideal fund-raising centre. Notably, Hong Kong's unemployment rate fell for the nineth consecutive months from the peak of 7.2% in the three-month period to February to 4.3% for the three months to October. On a more positive note, decrease in unemployment rate was seen in almost all sectors. Looking ahead, we expect the jobless rate to stay above 4% for the rest of 2021 as frozen tourism sector may continue to cap the recovery in both economy and labour market.

In **Macau**, we have three takeaways from the Macau budget delivered on 16 Nov. First, government income plunged by 13.6%yoy to MOP64.8 billion for the first eight month of 2021 as the total visitor arrivals only accounted for 20-30% of the pre pandemic level in 2019. Second, the SAR will strive to nurture and develop industries to speed up appropriate economic diversification with a more comprehensive tourism and leisure industry. More, the government will earmark MOP18.3billion for 200 budget under the government's investment and development expenditure plan while maintained several of social supportive measures such as annual cash handout and health vouchers, which remain at MOP 10,000 for permanent residents and MOP6000 for non-permanent residents, with health vouchers remaining at MOP 600 for permanent residents. Last but not least, there will be revisions to gaming laws, but the system currently in place would allow licenses to be extended if expiring in June 2022.

On economics front, Macau's GDP grew 32.9% yoy in real term, resuming growth for two consecutive quarters in 3Q21, while for the first three quarters of 2021, the GDP increased by 27.5 % yoy in real term. Notably, exports of gaming services (+302.6% yoy) and exports of other tourism services (+303.3% yoy) surged rapidly, nonetheless they were still down by 74.2% and 41.1% respectively compared to 2Q 2019. This suggested that the recovery of the two pillar industries remained moderate. In conclusion, we expect the economy will expand by about 15% yoy this year, it may only return to about 53% of 2019's level.

Key Events and Market Talk	
Facts	**OCBC Opinions**
▪ PBoC published its 3Q monetary policy report.	▪ There are six key takeaways from the monetary policy report. ▪ First, PBoC remained upbeat on the growth outlook highlighting the resilience of the economy as a super large economy. The word "resilience" appeared nine times in the report. This is in line with recent official rhetoric which focuses on opportunities. However, PBoC also gradually shifted its focus towards containing the tail risk highlighting the importance of bottom-line thinking approach to ensure financial stability. Meanwhile, it is also the first time that PBoC documented that it will defuse financial risk via high quality growth. ▪ Second, on monetary policy, PBoC reiterated its usual point to keep liquidity stable in a reasonable range. However, it also tweaked its language to enhance stability of credit growth. This hinted that PBoC's monetary policy is likely to be more flexible to support credit expansion. ▪ Third, on property market, the weighted average mortgage rate increased by 12 bps in 3Q from 2Q despite relatively stable loan rate to corporate. This is mainly the result of property tightening in the third quarter. Although PBoC reiterated not to use property market as short term stimulus tool, it highlighted in the report that it will work together with respective regulators and local government to ensure healthy development of property market and protect the legitimate consumer rights of property buyers. This is a positive change in our view that there will be less resistance from financial regulators to correct excessive tightening in mortgage and loans. ▪ Fourth, PBoC remains confident to weather potential shock from the withdrawal of the easing policy in the developed economies. As such, China's monetary policy is unlikely to be influenced by the change of external environment. ▪ Fifth, PBoC said the recent reform of deposit rate ceiling has lowered the long term funding costs for banks significantly. To recall, PBoC announced in June that it will allow banks to set ceilings on deposit rates by adding basis points to the benchmark interest rate instead of multiplying the benchmark interest rate. The weighted average deposit rate fell by 28bps in September for the level in May, one month before the reform. Meanwhile, the structure of deposit rate also changed with percentage of long term deposit rate fell. ▪ Sixth, on currency, PBoC said it guided financial institutions to provide currency hedging service to smaller and micro companies and also lowered the hedge costs for them. Against the backdrop of RMB appreciation, PBoC may gradually to allow a more flexible currency.
• Hong Kong Stock Exchanges announced to lower the bar for its secondary listing system, effective on the Jan 1 of 2022.	• Specifically, this would give the green light to those Chinese companies with no weighted voting rights structure (WVR), neither have met the conditions for variable interest entity (VIE) structure in the past for dual listing starting from next year. Under the change, Chinese companies will no longer

	require to prove themselves as an "innovative company", while the minimum market capital for listing would be much lower than the existing mechanism. Overall, the new framework may further strengthen the Hong Kong status as an ideal fund-raising centre especially with more companies coming back to Hong Kong for secondary listing.
• PBoC issued 10bn yuan 3 month bills at 2.59% and 15bn yuan 1 year bills at 2.75% respectively in Hong Kong last Friday.	• Demand from foreign investors remained strong with bid to cover ratio at 1.9 times. The attractiveness of renminbi assets may continue to consolidate Hong Kong's role as a key gateway connecting China and the rest of the world.
• Macau's government delivered the 2022 Policy address on Nov 16, pointing to strengthen the epidemic prevention and promote recovery of Macau's economy in the coming year.	• There are a few key takeaways from his notes. First, government income plunged by 13.6%yoy to MOP64.8 billion for the first eight month of 2021 as the total visitor arrivals only stand for roughly 20-30% away from the pre pandemic level in 2019. Second, the SAR will strive to nurture and develop industries to speed up appropriate economic diversification with a more comprehensive tourism and leisure industry. More, the government will earmark MOP18.3billion for 200 budget under the government's investment and development expenditure plan while maintained several of social supportive measures such as annual cash handout and health vouchers, which remain at MOP 10,000 for permanent residents and MOP6000 for non-permanent residents, with health vouchers remaining at MOP 600 for permanent residents. Last but not least, there will be revisions to gaming laws, but the system currently in place would allow licenses to be extended if expire in June. Overall, we think that the gaming revenue and tourism restriction would still be the key factors to the economy recovery. Due to the concerns about the China common prosperity policy, weak in real estate market, and the casino revenue from the VIP desks, which accounted more than 50% of the total gaming revenue, the pace of recovery for Macau economy are likely to decrease in the coming years.

Key Economic News

Facts	OCBC Opinions
▪ China's key October economic data surprised on the upside. ▪ Industrial production growth reaccelerated to 3.5% yoy from 3.1% yoy in September. ▪ Fixed asset investment growth, however, decelerated to 6.1% yoy from 7.3% yoy. ▪ Retail sales growth accelerated to 4.9% yoy from 4.4% yoy in September.	▪ On two-year average adjusting for pandemic effect, industrial production rebounded to 5.2% yoy in October from 5% yoy in September despite concerns about power shortage. The rebound of industrial production was mainly attributable to three factors in our view. First, external demand remains supportive despite the gradual reopening of global economy. Second, economic activities in high-tech industries remained strong. High-tech manufacturing output growth reaccelerated to 14.7% yoy from 14% yoy in September. Third, China's swift move to boost energy supply and contain the prices took effect. China's daily coal output has been boosted to more than 12 million tons in October while output in electricity and heat sectors rose by 11.1% yoy, up from 9.7% yoy in September. ▪ Property market softened further with all major indicators pointed towards further deceleration of the property sector.

	Although there is sign that China is moving towards containing the tail risk in the property market, property market is unlikely to turn around in the near term due to weak sentiment. Land acquisition declined by 24.2% yoy indicating a weak prospect. ▪ Infrastructure investment disappointed slowing down to 1% yoy from 1.5% yoy. Although the issuance of local government bond in October put a brake on further deceleration of aggregate social financing growth, the weak infrastructure investment and surge of fiscal deposit showed the cautious fiscal expenditure. On positive note, given China has rolled out big projects gradually, we expect infrastructure investment to reaccelerate in 2022. ▪ The slowdown in both property investment and infrastructure investment was partially offset by still resilient manufacturing investment, which grew by more than 14% yoy in October. ▪ The reacceleration of retail sales to 4.6% from 3.9% on two year average surprised on the upside despite still weak car sales and sporadic outbreak of delta variant. China's catering sales managed to grow by 2% yoy despite the disruption from the virus in some cities. This showed that China's domestic demand remains resilient, which will provide the floor to the growth in 4Q.
▪ Hong Kong's unemployment rate fell for the nineth consecutive months from the peak of 7.2% in the three month period to February to 4.3% for the three months to October. During the same period, underemployment rate also decreased 0.2 percentage point to 1.9%.	▪ On a more positive note, decrease in unemployment rate was seen in almost all sectors with manufacturing sector (down 0.4 percentage point to 1.4%), construction sector (down 0.3 percentage point to 5.2%) as well as Retail, accommodation and food services sectors (down 0.6 percentage point to 1.8%) leading the decline, owning to the well-contained local epidemic and the supported from the e-consumption voucher scheme. Looking ahead, we expect the jobless rate to stay above 4% for the rest of 2021, considering frozen tourism may continue put a constraint for recovery in both economy and labour market.
▪ Macau's GDP grew 32.9% yoy in real term, resuming positive growth for two consecutive quarters in 3Q21.	▪ Private consumption expenditure rose by 3.0% yoy, with household consumption expenditure in the domestic market and overseas rising by 3.2% yoy and 1% yoy respectively. Government final consumption expenditure dropped by 3.8 % yoy as lower spending needs on medical services and prevention on pandemic compared to same period of last year. As regarding the gross fixed capital formation, it dropped by 4.1 % yoy, however changes in inventories grew by 32.9%, largely attributed to equipment investment and construction projects. Notably, exports of gaming services (+302.6% yoy) and exports of other tourism services (+303.3% yoy) surged rapidly, nonetheless they were down by 74.2% and 41.1% respectively compared to 2Q 2019. This suggested that the recovery of the two pillar industries remained moderate. Overall, for the first three quarters of 2021, the GDP increased by 27.5 % in real term. ▪ Moving into the rest of 2021, given the recent challenge from the lingering effects of pandemic uncertainty and the together government oversight, both of which are also likely to drag the pace of recovery of the two pillar industries, namely tourism and gaming sectors. That said, even the border reopens fully

	and safely, the upward momentum recovery for the two pillar industries may remain below the pre pandemic level. In conclusion, we expect the economy will expand by about 15% yoy this year, it may only return to about 53% of 2019's level.

RMB	
Facts	**OCBC Opinions**
▪ The USDCNY continued to consolidate below 6.4.	▪ The positive vibe from Biden-Xi virtual meeting lent more supports to RMB. RMB continued to outperform its major trading partners amid dollar strength. With RMB index approaching 102, market may be cautious to push RMB higher further.

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