# Greater China – Week in Review

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## Highlights: Record high trade surplus

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China's bond market rallied last week on the back of more flexible open market operation and global major central banks' efforts to push back rate hike expectation. Although PBoC net withdrew CNY780 billion liquidity from the system last week after net injecting CNY680 billion in the last week of October to smooth out the liquidity amid tax payment, the step-up of 7-day reverse repo from CNY10 billon int the beginning of the week to CNY100 billion last Friday indicated PBoC remained committed to keep liquidity stable at a reasonable level.

China's Premier Li Keqiang reiterated that China should support smaller companies via the policy combinations of tax and fee reductions. Premier Li's latest message reinforced our view that China's fiscal policy will play a bigger role in supporting SMEs. With fiscal policy in place, we think the chance of RRR cut is lower.

China's trade surplus in October hit a record high of US$84.5 billion as demand for Chinese goods remained strong. China's trade surplus with the US remained above US$40 billion for two straight months.

China's softening demand for Iron ore is probably due to spillover effect from weaker property activities. imports of iron ore by value and by volume fell by 1.79% yoy and 14.18% yoy respectively. China continued to stock up chips, which has been one of the key drivers to China's import growth recently.

Current account surplus in the first three quarters reached US$202.8 billion, accounting for about 1.6% GDP, up slightly from 1.5% in the first half of 2021. The sizable current account surplus was mainly attributable to strong goods trade surplus and narrowing service trade deficit.

China's basic balance (including current account surplus and net foreign direct investment) as percentage of GDP remained high at 2.9% in the first three quarters of 2021, up from 2.5% in 2020. This probably explains the outperformance of RMB year to date.

China's Ministry of Commerce announced that China is ready for implementing tariff reductions, adjustments on the rules of origin for goods as well as software system updates for RCEP to come into force on 1 Jan 2022.

In the latest fight against the sporadic outbreak of delta variant, China encouraged vaccination for children aged from 3-11. As of 29 Oct, China has administrated 3.53 million doses to this age group on a voluntary basis. China's vaccination rate is expected to reach 80% by end of 2021.

**Hong Kong** may see large scale reopening with mainland China in February. In addition, Hong Kong's SFC said they would review its rules on governing virtual assets, and a joint circular is expected to issue with the HKMA in a later stage.

On data front, Hong Kong's 3Q21 GDP growth slightly missed expectation at 5.4% yoy, amid the high base last year and the weak performance of the frozen tourism industry. On sequential basis, it rose 0.1% qoq. In fact, the key driver was private consumption (+7.0% yoy), bolstered by the continuous improving labour market and the e-consumption voucher scheme which boosted the local economic activities. However, Hong Kong's retail sales growth slowed to 7.3% yoy in

September from 11.9% in August, suggesting the fading effect from the first batch of consumption vouchers in august. In short, we keep our 2021 GDP growth forecast unchanged at 6% while stay cautious to the downside risks including lingering pandemic uncertainty, US-China tensions, China's regulatory risk, faster-than-expected tightening of the Fed and slower-than-expected vaccination in Asia.

In **Macau,** government estimated the gross gaming revenue will be MOP 130 billion next year, aligned with the projection in 2021, likely due to the uncertainty driven by the macroeconomic conditions. This put a great challenge to the city's budget plan as gaming tax income has been one of the largest sources for the fiscal income, which is expected to be MOP45.5 billion, while expenditures on social welfare and infrastructure remained the highest of MOP8.4 billion in 2022, leading to a fiscal deficit of MOP30.3 billion. In a nutshell, this reinforced our view that the gaming sector and recovery itself looks likely to remain slow and may not get back to the pre-pandemic levels anytime soon against the macro and political backdrops.

| Key Events and Market Talk | |
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| **Facts** | **OCBC Opinions** |
| ▪ China's Premier Li Keqiang reiterated that China should support smaller companies via the policy combinations of tax and fee reductions. Meanwhile, he said China will also guide financial institutions to lower the interest rate to support the real economy. | ▪ Premier Li's latest message reinforced our view that China's fiscal policy will play a bigger role in supporting SMEs. With fiscal policy in place, we think the chance of RRR cut is lower. |
| ▪ China's central bank stepped up its 7-day reverse repo to CNY100 billion last Friday from CNY10 billion in the beginning of the week.<br>▪ For the whole week, PBoC net withdrew CNY780 billion liquidity via open market operation after net injecting CNY680 billion in the last week of October to smooth out the liquidity amid tax payment. | ▪ The step-up of liquidity injection via 7-day reverse repo last week confirmed PBoC's stance to maintain liquidity stable at a reasonable level. The flexible tone from PBoC supported the sentiment in the rates market. Together with global major central banks' efforts to push back rate hike expectation, China's bond market rallied last week. |
| ▪ China's Ministry of Commerce clarified last week that the notices to recommended household to stock up daily necessities and emergency supplies in winter is nothing to do with geopolitical issues. | ▪ |
| ▪ Hong Kong has been in a discussion with Chinese experts about the potential of reopening its border. | ▪ Discussions seems to reach to the final stage that Hong Kong travellers could be allowed to visit mainland China, without any quarantine as early as next month, but daily quota to Guangdong province initially. Besides, Hong Kong chief executive Carrie Lam said on last Friday (Nov 5), the city could be reopening on a "larger scale " between both sides by next year February. Overall, this in line with our base case scenario that a partial border reopening by the end of year or 1Q22, and Hong Kong's retail sectors would be the largest beneficial. |
| ▪ Chief Executive of HKMA pointed out that Hong Kong's virtual banks have reportedly opened more than 1 million accounts, showing the increasing popularity of people holding virtual assets. | ▪ As the value of bitcoin, the most traded cryptocurrencies, have jumped more than 78 times since 2016, Hong Kong's financial regulators SFC is finding its ways to govern cryptocurrencies transaction and other exposures to virtual assets such as exchange traded funds (ETFs). In fact, the Securities and Futures Commission (SFC) would review the 2018 rules, which limited transactions of cryptocurrencies via funds or trading platforms to professional investors with at least HK$8 million to invest, would still fit in the current environment. A joint circular would be issued with the HKMA after the review. |
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| Key Economic News | |
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| **Facts** | **OCBC Opinions** |
| ▪ China's current account surplus widened to US$80.1 billion in the third quarter from US$53.3 billion in 2Q. | ▪ Current account surplus in the first three quarters reached US$202.8 billion, accounting for about 1.6% GDP, up slightly from 1.5% in the first half of 2021. The sizable current account surplus was mainly attributable to strong goods trade surplus and narrowing service trade deficit. Service trade deficit in the first three quarters fell by 29.7% yoy to US$82.1 billion, which was only about 40% of service trade deficit during the same period of 2019. |

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| | ▪ In addition, inflows from foreign direct investment remains strong. China's basic balance (including current account surplus and net foreign direct investment) as percentage of GDP remained high at 2.9% in the first three quarters of 2021, up from 2.5% in 2020. This probably explains the outperformance of RMB year to date. |
| ▪ China's export grew by 27.1% yoy in October while import grew by 20.6% yoy.<br>▪ Total trade in October was at US$515.9 billion, above 500 billion mark for five consecutive months. | ▪ China's trade surplus in October hit a record high of US$84.5 billion. Demand from advanced economies remained strong. Exports to US, EU and Japan rose by 22.68% yoy, 44.31% yoy and 16.34% yoy respectively. China's trade surplus with the US remained above US$40 billion for two straight months.<br>▪ China's imports of crude oil rose by 56.32% yoy by value mainly due to surging oil prices although imports of crude oil by volume fell by 11.19% yoy. Demand for iron ore softened further due to slowdown of property market with both imports of iron ore by value and by volume fell by 1.79% yoy and 14.18% yoy respectively. China continued to stock up chips, which has been one of the key drivers to China's import growth recently. |
| ▪ The Macau government estimated the gross gaming revenue will be MOP 130 billion next year, aligned with the projection in 2021, likely due to the uncertainty driven by the macroeconomic conditions. | ▪ This put a great challenge to the city's budget plan as gaming tax income has been one of the largest sources for the fiscal income, which is expected to be MOP45.5 billion at only 2007 level next year, while expenditures on social welfare and infrastructure remained the highest of MOP8.4 billion in 2022, leading to a fiscal deficit of MOP30.3 billion. In a nutshell, this reinforced our view that the gaming sector and recovery itself looks likely to remain slow and may not get back to the pre-pandemic levels anytime soon against the macros and political backdrops. |
| ▪ Hong Kong's third quarter GDP grew 5.4% yoy, below expectation mainly due to high base effect and the weak performance of the frozen tourism industry. | ▪ On sequential basis, it rose 0.1% qoq. In fact, the key driver was private consumption (+7.0% yoy), bolstered by the continuous improving labour market and the e-consumption voucher scheme which boosted the local economic activities. On external front, growth of goods export slowed to 14.3% yoy in 3Q, likely dragged by high base and the China's power shortage. Specially, exports to Mainland China slowed from 30.0% yoy to 11.2% yoy in September, reflecting the power crisis in China may have an influence to moderate any export-led industrial activities in the coming months. Notably, fixed capital formation declined to 11.0% yoy in 3Q from 23.8% yoy in 2Q, followed by a series of regulatory crackdown across the China government and the gradually declining in investment sentiment across the Hong Kong market.<br>▪ In short, we keep our 2021 GDP growth forecast unchanged at 6% based on an assumption of uneven economic recovery while stay cautious to the downside risks including lingering pandemic uncertainty, US-China tensions, China's regulatory risk, and slower-than-expected vaccination in Asia. |
| ▪ Hong Kong's retail sales up 7.3% yoy in September, missing expectation amid the fading effect from the first batch of consumption vouchers in August. Still, sales rose 8 percent for the first nine months of 2021 in the comparison to the same period in 2020. | ▪ Zooming in, the sale value of consumer durable goods (+29.16% yoy), alcoholic beverages and tobacco(+13.83% yoy), jewelry, clocks and watches and valuable gifts (+16.19% yoy) all increased, supported by the stable epidemic and labour market outlook together with the consumption voucher scheme, which may continue to lend support in the near term. |

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| | However, clothing, footwear and allied product (-4.2% yoy) and commodities in department stores (-11.6% yoy) continued to plunge amid the frozen inbound tourism. Going forward, the retail sector's performance may be divided until the city's border full opens as most of the categories remained far below their pre- pandemic level. |
| ▪ Following a sharp drop in inbound visitors in Golden week holiday in 2021 , Macau's gaming revenue fell 25.8% mom or 40% yoy to 4.37bn MOP, the worst month of 2021. | ▪ Sequentially, total gaming revenue dropped 24.2% QoQ in Q3 21, with the lingering effects of pandemic uncertainty, tighter government oversight and the latest containment measures which added uncertainty to the overall industry activities. As a result, we downgrade our full year 2021 GGR growth estimate to roughly 30% yoy, highlighted the big changes in Macau as a key Asia gaming hub and the tourism outlook. |

| RMB | |
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| **Facts** | **OCBC Opinions** |
| ▪ The USDCNY continued to consolidate around 6.40. | ▪ The market talk about the orders from big Chinese banks at 6.38 level has fuelled caution. The USDCNY is expected to consolidate in the near term. Nevertheless, RMB continued to appreciate against its major trading partners with RMB index testing 100.70. |

# Treasury Research & Strategy

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