Highlights: Deemphasizing but not "lying flat"

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As expected, China's top leadership deemphasized its ambitious "around 5.5%" 2022 growth target in the latest July Politburo meeting although China did not downgrade its growth target explicitly. As long as China is able to keep its unemployment rate below 5.5%, China will have a higher tolerance for slower growth.

China reiterated to stick to its dynamic zero covid policy. The statement mentioned explicitly that China should look at the zero covid policy from political perspective. The political viewpoint is likely to overwrite economic viewpoint. The intact of its dynamic zero Covid policy ahead of the 20th Party Congress may continue to yield uncertainty to China's cyclical recovery in the second half the year.

Nevertheless, higher tolerance for slower growth does not mean "lying flat". As mentioned by the meeting, China will still strive for the best possible outcome. In addition, the central government also delegated some responsibilities to local governments ordering provinces with resources to achieve their growth and social development targets.

Although China did not announce any new stimulus in the meeting such as the special government bond, China will support the economy via fuller utilization of existing resource such as the local government special bond limit. This implies additional issuance of up to CNY1.47 trillion local government special bond in the second half of 2022 as total outstanding of local government special bond was at CNY20.1 trillion as of the end of June 2022 below the local government bond limit of CNY21.6 trillion.

Given fiscal policy is likely to play a leading role in the second half, monetary policy may take a backseat. The emphasis of price stability may limit the room for more aggressive monetary policy. The persistent low interbank funding costs have fuelled the return of financial leverage with the 1-day repo trading volume hit a record high of more than CNY6 trillion in the second half of July. The increasing irregularity of size of daily OMO may be a warning signal from the central bank to keep the leverage in check.

On property, China's top leaders include "ensuring housing delivery" in its statement and ranked "stabilize real estate industry" ahead of the usual slogan of "housing for living, not for speculation." This shows China will continue to manage its property risk carefully. On positive note, the daily average property sales in 30 major cities in China improved in the last week of July.

On data, China's manufacturing PMI fell to 49 in July from 50.2 although non-manufacturing PMI remained resilient above 50. Business expectation fell to 52 from 55.2, below April's 53.3 when part of China was under lockdown. This showed expectation remained sensitive to those negative headlines. Raw material input prices tumbled to 40.40 from 52 due to recent correction of commodity prices. This implies the sequential contraction of producer prices index. We expect PPI to decelerate to below 5% in July from 6.1% in June.

Hong Kong will enter technical recession, as the GDP declined for the second consecutive quarter in 2Q 2022. Hong Kong government is reportedly planning to move to "5+2 model"/ "4+3 model" for arriving travellers, cutting the hotel quarantine period to 4/5 days and adopting a health code system afterwards to limit the risk of spreading virus. It was considered the first move to reopen the much isolated city since the start of pandemic. The relaxed border measures should help Hong Kong to achieve a "U-shape" recovery this year. We expect the authority to adopt a more targeted approach in handling covid cases going forward, with a goal to minimize economic disruptions.

Macau extended its "consolidation phase" until 2 August. Most non-essential businesses, including casinos, were allowed to operate with cap on operation capacity. During this phase, the border control, mask mandate and ban on provision of dine-in services remained in force.

The much-anticipated public retendering of gaming concession was started last week. Bidders can submit their proposal from 29 July until 14 September. The tendering process is expected to complete within this year, according to the Committee for Public Tendering of Concessions for the Operation of Casino Games of Fortune. According to the public tender document, bidders' proposals will be evaluated based on plans to boost foreign visitor arrivals, size of investment commitment, experience in operating casinos, effort in curbing illegal activities, and commitment on social responsibility.

Key Events and Market Talk	
Facts	**OCBC Opinions**
▪ China's top leadership deemphasized its growth target in the July politburo meeting.	▪ China reiterated to stick to its dynamic zero covid policy. The statement mentioned explicitly that China should look at the zero covid policy from political perspective. The political viewpoint is likely to overwrite economic viewpoint. The intact of its dynamic zero Covid policy ahead of the 20th Party Congress may continue to weigh down on growth periodically depending on the development of virus. ▪ Although China did not explicitly change its growth target, it omitted the sentence of achieving its growth target. Growth target will take a backseat while job stability and price stability will take a front seat. As long as China is able to keep its unemployment rate below 5.5%, China will have a higher tolerance for slower growth. ▪ Nevertheless, higher tolerance for slower growth does not mean "lying flat". As mentioned by the meeting, China will still strive for the best possible outcome. In addition, the central government also delegated some responsibilities to local governments ordering provinces with resources to achieve their growth and social development target. ▪ Boosting domestic demand will be the key with fiscal policy being expected to take a lead. Although China did not announce any new stimulus such as special government bond, China will support the economy via fuller utilization of local government special bond limit. This implies additional issuance of up to CNY1.47 trillion local government special bond in the second half of 2022 as total outstanding of local government special bond was at CNY20.1 trillion as of the end of June 2022 below the local government bond limit of CNY21.6 trillion. ▪ We think monetary policy will take a backseat but it will remain supportive to ensure liquidity at reasonable level to support the rollout of fiscal policy. ▪ On property, China's top leaders includes ensuring housing delivery in its statement and also ranked "stabilize real estate industry" ahead of the usual slogan of "housing for living, not for speculation."
▪ PBoC reduced its daily size of 7-day reverse repo to CNY2 billion in the last three trading days of July.	▪ The persistent low interbank funding costs have fuelled the return of financial leverage with the 1-day repo trading volume hit a record high of more than CNY6 trillion in the second half of July. The increasing irregularity of size of daily OMO may be a warning signal from the central bank to keep the leverage in check.
▪ Hong Kong will enter technical recession, as the GDP declined for the second consecutive quarter in 2Q 2022.	▪ According to the Financial Secretary Paul Chan, Hong Kong will see negative year-on-year economic growth for the second back-to-back quarter, despite some improvement comparing with the previous quarter. He attributed the weakness to aggressive interest rate hikes by major central banks around the world and worsened global economic situation. Last week, the Hong Kong Monetary Authority raised its base rate to 2.75%, following the hike by Fed, as part of the pre-set formula.

	▪ We expect to see mild economic contraction in the second quarter amid weakened external demand. In addition, heightened volatility in asset market and consolidation in housing property should also weigh on investment and private consumption.
▪ Hong Kong government is reportedly planning to move to "5+2 model"/ "4+3 model" for arriving travellers, cutting the hotel quarantine period to 4/5 days and adopting a health code system afterwards to limit the risk of spreading virus.	▪ To host the upcoming "International Financial Leaders Investment Summit" and "Hong Kong Sevens", the government reportedly plans to relax the hotel quarantine requirement for inbound travellers before November. It was considered the first move to reopen the much isolated city since the start of pandemic. The reopening measures should help Hong Kong to achieve a "U-shape" recovery this year. We expect the authority to adopt a more targeted approach in handling covid cases going forward, with a goal to minimize economic disruptions.
▪ Macau: The much-anticipated public retendering of gaming concession was started last week. Bidders can submit their proposal from 29 July until 14 September. The tendering process is expected to complete within this year, according to the Committee for Public Tendering of Concessions for the Operation of Casino Games of Fortune.	▪ According to the public tender document, bidders' proposals will be evaluated based on plans to boost foreign visitor arrivals, size of investment commitment, experience in operating casinos, effort in curbing illegal activities, and commitment on social responsibility.
▪ Macau extended its "consolidation phase" until 2 August. Most non-essential businesses, including casinos, were allowed to operate with cap on operation capacity. During this phase, the border control, mask mandate and ban on provision of dine-in services remained in force.	▪ According to the Macau official, if the Covid cases remained subdued, the government will further ease the antivirus measures from 2 August. Nonetheless, in all likelihood, Macau and neighbouring Mainland city Zhuhai will not revert to a more relaxed border measures soon (two-way quarantine free travel upon the presentation of negative virus test results). The economy may see contraction in 2022, amid ongoing Covid disruptions. For high frequency economic data, we expect to see very low visitor arrivals and gross gaming revenue figure in July and possibly August.

Key Economic News

Facts	OCBC Opinions
▪ China's industrial profit grew by 1% in the first half of 2022. ▪ Industrial profit increased by 0.8% yoy in June, improving from the contraction of 6.5% yoy in May.	▪ The rebound of industrial profit growth in June was mainly due to China's relaxation of Covid control. ▪ On sectors, mining remained the key contribution to China's industrial profit in the first half while car manufacturing and pharmaceutical manufacturing remained the key drag. Nevertheless, the profit structure has showed signs of improvement. For example, profit growth of coal mining decelerated to 157.1% yoy in the first half from 174.7% yoy in the first five months due to the correction of commodity prices. In addition, profit growth from car manufacturing sector improved with the decline of profit growth narrowed to 25.5% from 37.5%. Given China has rolled out more supporting measures to boost auto consumption, we expect industrial profit in auto sector to improve further, which will underpin the growth of aggregate industrial profit in the second half of 2022.
▪ China's manufacturing PMI returned to contraction territory down from 50.2 to 49.	▪ Both supply and demand softened in July as the economic recovery was clouded by the renewed concerns about the

▪ However, non-manufacturing PMI held up above 50 at 53.8 down from 54.7.	property market and resurgence of virus. In addition, the activities were also affected by seasonal pattern. ▪ Business expectation fell to 52 from 55.2, below April's 53.3 when part of China was under lockdown. This showed expectation remained sensitive to those negative headlines. ▪ Raw material input prices tumbled to 40.40 from 52 due to recent correction of commodity prices. This implies the sequential contraction of producer prices index. We expect PPI to decelerate to below 5% in July from 6.1% in June. The narrowing gap between PPI and CPI showed the less margin pressure for companies. ▪ PMI for service sector fell to 52.8, but still above 50 as China has strived for balance between virus control and economic development. IN addition, PMI for construction rose to 59.2 from 56.6, highest since last August.
▪ Daily average property sales in 30 major cities in China improved in the last week of July.	▪ The 7-day rolling daily average property sales by area rose to 460 thousand square meters on 30 July. The year on year contraction narrowed to 11.5% from more than 40% in the middle of July during the height of mortgage boycott.
▪ External headwinds continued to drag on Hong Kong's trade performance. The drop in values of merchandise exports in Hong Kong deepened to 6.4% yoy in June, surprising the market to the downside. Meanwhile, the values of imports rose further by 0.5% in June. During the month, trade deficit widened notably to HK$68.5 billion, as compared to HK$36.7 billion in the previous month.	▪ Zooming in, Hong Kong's exports to most major trading partners either slowed or turned to decline in June, except for Vietnam. In particular, exports to Mainland China fell for the fourth consecutive month, by 10.4% yoy. Meanwhile, exports to US turned to a year-on-year decline of 6.1% in June (17.4% yoy in May). ▪ For the first half of 2022 as a whole, the value of total exports of goods increased by 0.4% over the same period in 2021, while that of imports of goods increased by a faster 2.1%. A visible trade deficit of HKD206.1 billion was recorded in the first half of 2022. The export outlook for Hong Kong became more challenging this year.
▪ The decline in housing price in Hong Kong became more entrenched lately. According to the preliminary figures, the year-on-year fall in residential property price index widened further to 3.4% in June. Compared to the recent peak in September 2021, the housing prices fell cumulatively by 4.4%.	▪ Analyze by flat size, the large sized properties (Class D and E; saleable area of 100 square meter or above) saw sharper year-on-year decline in prices (-4.7% YoY in June), as well as larger magnitude of price correction (-6.4% since recent peak at October 2021), as compared to mass-market and medium-sized properties (-3.4% YoY in June; -4.4% since recent peak at September 2021). Trading activities in the housing market also turned quieter. ▪ As for rental index, the year-on-year decline moderated to 0.7% in June, from that of -0.9% in May. On trading front, the number of sales and purchase agreement of residential properties also plunged by 36% year-on-year in June. ▪ The current price correction trend is in line with our conviction that the property market in Hong Kong will undergo a mild price correction in 2022. Yet, it should be noted that the systematic risks remained subdued on the back strong household balance sheet. According to the latest survey, the number of mortgage loans in negative equity fell to 55 cases at end-June, from 104 at end-Mar.

RMB	
Facts	**OCBC Opinions**

▪ The USDCNY hovered around 6.75 in the past week.	▪ The retreat of broad dollar index last week failed to support RMB as RMB's near term outlook was clouded by the renewed concerns about property risk. Market will continue to digest the impact of politburo meeting.

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