Greater China – Week in Review

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Highlights: Green shoots

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China's financial market was overwhelmed by various high level meetings last week ahead of golden week holiday.

The State Council meeting on 26 September mainly focused on the delay of fee payments in the fourth quarter as well as income tax deduction for pension contribution.

On 27 September, China's central bank host its virtual foreign currency market self-regulatory framework meeting highlighting the importance of foreign currency market and currency stability. **The commentary out of China was well received by market participants who were searching for the line of sand.** The USDCNH came off from the high of 7.25. As market always said "don't fight the Fed", fighting PBoC is also a tough job. As such, we think market will take a cautious tone during this golden week holiday in the absence of China market.

On 28 September, Premier Li chaired the economic planning meeting to stabilize the economy in the last quarter of 2022. Premier Li remains upbeat as he believes previous supportive measures will take effect in the last quarter. **China will continue to rely on two new structural monetary policy tools** including policy developmental financial tool to support the infrastructure investments and relending and rediscount facilities to support equipment upgrade for companies.

On 29 September, PBoC echoed Premier Li's tone in its 3Q monetary policy meeting. PBoC reiterated to support the growth via structural monetary policy tool. Given the rising constraints from currency stability and inflation, we think structural monetary policy tool will play a more important role in 4Q. For the first time, PBoC said it will work to reduce the cost for consumption loan other than the funding costs for corporates.

On monetary policy, **we think the focus of monetary stimulus will shift from price of money to quantity of money.** It is still a close call that China may further lower its reserve requirement ratio. Nevertheless, we see less urgency for China to cut its interest rate in the last quarter of 2022.

On property market, the tone has been more supportive. Premier Li reiterated to facilitate the delivery of pre-sold housing projects while PBoC followed up with the credit quota to support the completion of pre-sold housing projects. In addition, PBoC said it will guide commercial banks to provide supplementary financing support.

Meanwhile, PBoC announced to grant the green light for eligible local governments to remove the floor for mortgage rates for first time home buyers in the cities which saw prices declined by both mom and yoy in June to August 2022. About 23 tier 3 and tier 4 cities are expected to qualify for that.

Finally, we saw the green shoots in China's property sales. **Property sales in 30 major cities rebounded sharply in the last 10 days of September.** As such, total sales by area in those 30 major cities rose by 2.6% yoy in September. It seems China's property market started to respond to China's easing measures after struggling for almost a year. We will watch whether this recovery is sustainable or not.

The return of China's manufacturing PMI to expansion territory in September despite softening external demand also fuelled hopes that previous easings may start to take effect. In addition, **construction PMI jumped to 60.2 highest in more than a year**, signalling more supports to infrastructure investment.

The aggressive Fed tightening also weighed down on China's balance of payment with non-reserve financial account deficit widened to US$100.66 billion in the first half of 2022. Nevertheless, **the outflows under financial account were well offset by the inflows under current account and foreign direct investment.** Overall, total balance of payment surplus as % of GDP narrowed to 0.76% in the first half from 2% in 2021 when China recorded twin surpluses.

Domestic demand in **Hong Kong** showed some signs of weakening, while external demand deteriorated further. The value of total retail sales edged down by 0.1% in August, as compared to the comparatively high base in the previous year. The drop in values of merchandise exports in Hong Kong deepened to 14.3% yoy in August, the largest year-on-year decline since the start of the pandemic, surprising the market to the downside.

Market sentiment in capital market worsened. Hang Seng Index plunged to the lowest level since 2009, extending the year-to-date decline to 26.4%. Meanwhile, housing market downturn in Hong Kong showed signs of worsening lately, with the year-on-year decline in property price widened further to 7.4% in August (5.4% in July). The private residential property price index in August fell back to the levels last seen in 2019.

Macau's gross gaming revenue in September recorded a notable rebound from that of August, as border controls continued to ease. Nonetheless, the figure was still down by 49.6% compared to a year ago, at MOP2,962 million. In the first nine months of 2022, the gaming revenue fell by 53.1% YoY. We are looking at a few potential positive catalysts in coming months, including resumption of e-visa and packaged tours for Mainland visitors. The gaming revenue might see further notable improvement in their in the fourth quarter due to the low base a year ago.

Key Events and Market Talk	
Facts	**OCBC Opinions**
▪ China's Ministry of Commerce unveiled new notice to support foreign trade.	▪ The Commerce Ministry reiterated that opening is China's basic principle and foreign trade and foreign investment are important for China's job stability. ▪ The Ministry will work with other departments to support exporters to deal with pandemic disruptions. In addition, it will also help companies attend trade exhibitions and support e-commerce logistics firms to invest in logistics infrastructure and launch overseas warehouse. ▪
▪ PBoC published a meeting statement on 28 Sep sharing the key takeaways from its FX market self-regulatory framework meeting on 27 Sep.	▪ The central bank said although RMB has depreciated against the dollar, RMB index remains relative stable and RMB outperformed other major currencies such as EUR, JPY and GBP etc. PBoC also warned against the one-way depreciation bet. ▪ The meeting highlighted the importance of foreign currency market and stability is the priority. ▪ The latest meeting sent the signal that PBoC is increasingly uncomfortable with RMB's movement. Nevertheless, it is unlikely to be the catalyst for any imminent intervention. As such, the near-term outlook of RMB may still largely depend on the dollar movement. Nevertheless, we think the risk for PBoC to step up its intervention is getting higher.

Key Economic News	
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▪ China's overall balance of payment remains resilient in the first half of 2022.	▪ Basic balance including both current account and direct investment surplus as % of GDP remained high at 2.75% in the first half. Nevertheless, non-reserve financial account deficit widened to US$100.66 billion in the first half due to unwind of foreign bond holdings as a result of Fed tightening. As a result, total balance of payment surplus as % of GDP narrowed to 0.76% in the first half from 2% in 2021 when China recorded twin surpluses. ▪ China remains one of the largest net creditors in the world with total net foreign assets increased to US$2.08 trillion as of end of June 2022 from US$1.98 trillion in 2021. ▪ However, China's investment return from its foreign assets fell significantly to about annualized 1.4% from usual 3% probably due to the rising volatility in the financial market. Nevertheless, China continued to provide stable return to foreign investors with foreign investors earned about annualized 5.5% in the first half of 2022 from their US$7 trillion total investment in China.
▪ China's manufacturing PMI rebounded to 50.10 in September from 49.4 in August while non-manufacturing PMI softened to 50.6 from 52.6.	▪ For manufacturing sector, both supply and demand improved. Production returned to expansion territory while new demand also increased to 49.8 from 49.2. Nevertheless, external demand moderated further with new export order slipped to 47, lowest since October last year from 48.1. On positive note, business expectation improved to 53.4 from 52.3 thanks to more stimulus measures rolled out in September to support manufacturing sector.

	▪ Service sector weakened in September with service PMI fell to 48.9 from 51.9 led by the sharp decline of new order to 41.6 from 49.2 due to the resurgence of Covid-19. ▪ Nevertheless, construction PMI jumped to 60.2 highest in more than a year, signalling the improving activity in infrastructure projects.
▪ External headwinds continued to drag on Hong Kong's trade performance. The drop in values of merchandise exports in Hong Kong deepened to 14.3% yoy in August, the largest year-on-year decline since the start of the pandemic, surprising the market to the downside. Meanwhile, the values of imports also plunged by 16.3% in August. During the month, trade deficit narrowed somewhat to HK$13.3 billion, as compared to HK$27.6 billion in the previous month.	▪ The deepened decline in exports was largely due to the sharper fall in exports to Mainland China, by 19.4% yoy in August (-10.7% in July). Meanwhile, exports to US and EU also continued to fall. As for other major trading partners in Asia, Hong Kong's exports to most of these economies (except for Japan) rose further in August. In the first eight months of 2022, the total exports of goods dropped by 2.9% over the same period last year. ▪ The export outlook for Hong Kong remained challenging for the remainder of the year, as global economy weakened and financial condition tightened. We expect single-digit decline for Hong Kong's total goods exports in 2022, after seeing a whopping 26.3% year-on-year growth last year.
▪ Hong Kong: The value of total retail sales edged down by 0.1% in August, as compared to the comparatively high base in the previous year.	▪ Analyze by retail outlets, the retails sales of supermarket (-1.0% yoy), and clothing and footwear (-8.4% yoy), and other consumer goods (-0.5% yoy) all turned into year-on-year declines in August, while the decline in sales in department stores widened (-11.3% yoy). ▪ Looking ahead, with the distribution of more consumption vouchers, and eased border measures, we should see modest increase in retail sales. Yet we remain cautious to the risks posed by the external headwinds and tighter financial conditions, as well as the revival of outbound tourism under the new "0+3" arrangement.
▪ Hong Kong: Housing market downturn in Hong Kong showed signs of worsening lately, with the year-on-year decline in property price widened further to 7.4% in August (5.4% in July). The private residential property price index in August fell back to the levels last seen in 2019.	▪ Analyze by flat size, the mass-market and medium-sized properties (Class A, B and C; below saleable area of 100 square meter) saw sharper year-on-year decline in prices in August at 7.4%, as compared to large-sized properties (Class D and E; saleable area of 100 square meter or above) at 6.2%. As for rental index, the year-on-year decline widened also somewhat to 1.6% in August, with that of mass-market and medium-sized properties (-2.0% yoy in August) underperforming the large-sized properties (-0.3% yoy). ▪ Market sentiment in the property market deteriorated further, alongside the tighter financial condition and slower-than-expected global economic momentum. Reportedly, the room for price negotiation in second-hand property market widened. Trading activities remained subdued. In the first eight months of 2022, the number of residential properties transactions plummeted by 38.4% yoy. As the housing market downturn showed clear signs of worsening. We revised downward our forecast this year, and expected the overall residential price to fall by 10% during the year. ▪ In view of the higher prime rate and interest rate cap for new mortgages, the Hong Kong Monetary Authority announced to lower the interest rate stress testing requirement for mortgage from 300 basis points to 200 basis points. Nonetheless, we do not expect such measure will render much

	supports to the housing market in periods ahead.
▪ Hong Kong: In August, while total loans and advances fell by 0.6% mom, total deposit declined remained unchanged. Within total, HKD loans grew 0.3% mom, whereas HKD deposits fell by 0.9% mom. As a result, HKD loan-to-deposit ratio rose somewhat to 88.7% at end-August from that of 87.5% % at end-July. ▪ Hong Kong: Hong Kong's RMB deposits grew 4.4% mom to RMB849.3 billion at end-August. The total remittance of renminbi for cross-border trade settlement also expanded to RMB794.2 billion in August, from RMB732.6 billion in the previous month.	▪ During the month, total loan and advances dropped by 0.6% mom, on the back of declines in both loans for use in Hong Kong (-0.2% mom) and loans for outside Hong Kong (-1.6% mom). On deposit, total deposits was little changed in August, while USD and other foreign currency deposits expanded by 1.1% mom and 0.1% mom respectively.
▪ Macau: Macau's gross gaming revenue in September recorded a notable rebound from that of August, as border controls continued to ease. Nonetheless, the figure was still down by 49.6% compared to a year ago, at MOP2,962 million. In the first nine months of 2022, the gaming revenue fell by 53.1% YoY.	▪ In the third quarter of 2022, the gross gaming revenue plummeted by 70.4% as compared to last year, due to imposition of lockdown measures, as well as tightened border controls during the local Covid outbreak. While we saw some rebound in September, the figure was still 32.3% lower than the average in the first half of 2022 at MOP4,378 million. ▪ We are looking at a few potential positive catalysts in coming months, including resumption of e-visa and packaged tours for Mainland visitors. The gaming revenue might see further notable improvement in their in the fourth quarter due to the low base a year ago.

RMB	
Facts	**OCBC Opinions**
▪ Both USDCNY and USDCNH retraced after breaking 7.2 last week.	▪ The reimposition of 20% reserve on RMB derivative sales to clients failed to put a brake on RMB's depreciation. Nevertheless, the commentary out of China was well received by market participants who were searching for the line of sand. The USDCNH came off from the high of 7.25. As market always said "don't fight the Fed", fighting PBoC is also a tough job. As such, we think market will take a cautious tone during this golden week holiday in the absence of China market.

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