Greater China – Week in Review

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Highlights: two important changes

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While China's market is still closed for Labor Day holiday, there have been two important changes in the past one week including China's policy put and China's finetune of its Covid-19 strategy.

China's equity market staged a strong rebound in the last trading day of April after the April politburo meeting chaired by President Xi announced to step up its support for growth.

There are signs of coordinated expectation management last week. For example, China unveiled the key messages from the politburo meeting during the middle of trading days instead of usual evening time, which fuelled a strong risk rally in the afternoon. In addition, the SAFE also brought forward the release of 1Q balance of payment data to late April from early May to prove China's resilient current account surplus.

There are two key takeaways from April Politburo meeting. First, China's reiteration of its ambitious growth target despite growing doubt amid the fresh downgrade to 4.4% from the IMF implies that more policy supports are in the pipeline.

Second, the explicit reassurance to complete the special ratification of the platform economy endorsed by President Xi is a big relief. This is by far the most authoritative confirmation on regulatory front. **The policy put is likely to set the floor for China's equity valuation.** After a sizable outflow under China's stock connect in March, the equity flow under northbound registered a small net inflow of CNY6.3 billion in April.

In addition, on property market, although China reiterated housing is for living not for speculation, the highlight of improving real estate policies based on local conditions shows central government's more flexible approach towards property market.

On Covid-19, China redefined its dynamic zero covid strategy as community level zero Covid case while the number of new cases in those quarantine facilities will not affect China's declaration of victory. Six districts in Shanghai have reported no new community cases. China's Vice Premier Sun Chunlan said that communities with no new cases for seven consecutive days should be allowed to return to normal. Express industry in Shanghai has resumed its operation on 27 April.

Residents in Shanghai are seeing the light at the end of tunnel. However, on the national level, China has switched to the regular nucleic testing (PCR test) mode. Big cities such as Beijing and Hangzhou have reported the plan for mass testing. **Instead of vaccination pass, a PCR pass (a negative PCR test result within 48 or 72 hours) will be needed** for people to take public transport and travel to crowded places such as mall and office.

The regular routine PCR test could be a new normal for people's daily life going forwards to fight this highly transmissible Omicron. From market perspective, the extra burden on local governments from huge testing costs has led to discussion **whether China will need to issue additional special bond to finance its massive and regular testing activities.**

On economic activities, it is not a surprise that both China's manufacturing PMI and non-manufacturing PMI fell to the lowest level since the first wave of covid outbreak in early 2020 due to people movement control and logistics bottleneck.

However, as compared to the first wave, **the current slowdown demonstrated three differences.** First, back in early 2020, production and new orders fell by the most while delivery index fell by the most this time. This showed the logistics bottleneck. Second, despite softening demand and production, employment index continued to hold up well after falling from 48.6 in March to 47.2 in April, but much higher than 31.8 in Feb 2020. Third, during the first wave of covid outbreak, China's construction PMI underperformed manufacturing PMI and service PMI. However, for this time, China's construction PMI managed to stay in the expansion territory albeit falling from 58.1 to 52.7. This reinforced that infrastructure remains the main driver to growth.

Amid weak domestic and external demand during the fifth wave of Covid-19 outbreak, **Hong Kong**'s economy plunged into contraction in the first quarter of 2022. According to the preliminary reading, Hong Kong's GDP missed market expectations by a large margin and shrank by 4.0% yoy in real term in 1Q 2022, as compared to the 4.7% expansion in the previous quarter. On seasonally adjusted basis, GDP contracted by 2.9% qoq, after staying virtually unchanged in 4Q 2021. Private consumption expenditure, gross domestic fixed capital formation and exports of goods turned to notable year-on-year declines of 5.4%, 8.3 and 4.5% respectively (+5.3%, -0.6% and +13.5% yoy respectively in 4Q 2022). Meanwhile, on the back of massive Covid-19 spending, government consumption expenditure expanded further by 5.9% yoy.

Hong Kong will enter the second phase of reopening on 19 May, extending dine-in service till midnight, raising the gathering size limit and reopening swimming pools, gyms and bars. With the city moving to the phase two of reopening, the economy should be back on growth mode starting from the second quarter. Nonetheless, we revise downward our **GDP growth forecast to 1.2% in 2022**, taking into account the weakened external demand, China's slowing growth prospect and the Fed's aggressive monetary tightening.

The Chief Executive candidate John Lee unveiled his election manifesto last Friday, outlining plan to improve governance, increase public housing supply, enhance Hong Kong's competitiveness and build an inclusive society with focus on upward social mobility. Overall speaking, the election manifesto and proposed policy direction are within expectation, and some are inherited from the current government. We remain to see what concrete measures will be put forward by the government in the upcoming term.

Over the last week, financial officials in Hong Kong have repeatedly flagged warning on the potential capital outflow, Hong Kong dollar rate and mortgage rate uptick amid hawkish Fed. According to the HKMA officials, comparing with the previous Fed tightening cycle, weak-side convertibility undertaking of currency peg will be breached sooner and more frequently. Aside from the FX intervention, more measures will be introduced to reduce the spread between HKD and USD rates.

Sentiment in local equities market saw notable improvement in Friday afternoon, following the news on discussion to allow on-site audit inspections of Chinese firms by US financial watchdog in an attempt to avoid being delisted from US exchanges, as well as Politburo's pledge to spur growth and support platform economy. The authority vowed to support platform economy, easing the concerns over the regulatory crackdown on technology sectors. Subsequently, the Hang Seng Index staged a sharp rebound and surged by 4.01% within the day to reclaim the 21,000 level.

Border control measures for inbound visitors travelling from Guangdong province are eased before the five-day Labour Day holiday (30 April to 4 May). Travellers can enter Macau without undergoing quarantine arrangement if they hold a negative nucleic acid test certificate issued within 72 hours upon entry. On data front, Gross gaming revenue in April once again missed the market expectations, and plunged 68.1% yoy to MOP2.68 billion. Hotel occupancy rate in Macau fell to 30.4% in March, from 48.8% in February, the lowest since September 2020. Unemployment rate in Macau rose further to 3.5%% while underemployment rate dropped to 2.8% during the three months to March.

Key Events and Market Talk	
Facts	**OCBC Opinions**
▪ China's April politburo meeting reassured more policy supports.	▪ The latest messages from the April politburo meeting is similar to that from the announcement from the Financial Stability and Development Committee meeting in March. ▪ Nevertheless there are three key takeaways. ▪ First, despite growing doubt over China's growth target this year in particular after the IMF downgraded China's growth target to 4.4% this year, China reassured its plan to achieve its about 5.5% growth target. This implies more policy supports in the near term. ▪ Second, China's politburo meeting chaired by President Xi confirmed that China will complete the special rectification of the platform economy. This is a game changer in our view. The policy put is likely to set the floor for equity valuation. ▪ Third, on property market, although China reiterated housing is for living not for speculation, the highlight of improving real estate policies based on local conditions shows central government's more flexible approach towards property market.
▪ Six districts in Shanghai have reported no new community cases. China's Vice Premier Sun Chunlan said that communities with no new cases for seven consecutive days should be allowed to return to normal.	▪ China has redefined its zero Covid-strategy moving to community zero covid strategy. This will help speed up Shanghai's return to normal life. ▪ However, on the national level, China has switched to the regular nucleic testing (PCR test) mode. Big cities such as Beijing and Hangzhou have reported the plan for mass testing. Instead of vaccination pass, a negative PCR test result within 48 or 72 hours will become a pass to take public transport and return to office. ▪ The regular routine PCR test could be a new normal for people's daily life going forwards. From market perspective, the extra burden on local governments from huge testing costs has led to discussion whether China will need to issue additional special bond to finance its massive and regular testing activities.
▪ Hong Kong: The Chief Executive candidate John Lee unveiled his election manifesto last Friday, outlining plan to improve governance, increase public housing supply, enhance Hong Kong's competitiveness and build an inclusive society with focus on upward social mobility.	▪ On improving governance, John Lee proposed to push forward the government restructuring plan with goal of strengthening strategic planning, policy research and overall coordination efforts, and establish a mechanism to mobilize civil servants in case of emergencies. On housing supply, he sought to provide more housing by streamlining the land acquisition procedures, and fast-tracking the housing and planning cycle. On large urban and infrastructure planning, his government would review the Northern Metropolis plan and Lantau Tomorrow Vision. ▪ On social issues and aging population, Lee's agenda also included a pilot scheme aiming to tackle cross-generation poverty problem, reforming old age living allowance, Community Care Service Voucher. On youth policies, he vowed to provide upward mobility for youth and popularize STEAM education. Lastly, John Lee promised to build an inclusive, diverse, and open society society, as well as to enhance Hong Kong's international financial centre status.

	▪ Overall speaking, the election manifesto and proposed policy direction are within expectation and some are inherited from the current government. We remain to see what concrete measures will be put forward by the government in the upcoming term.
▪ Hong Kong: Fund raising activities turned subdued in Hong Kong during the first quarter, as multiple headwinds haunted the financial market. Similar to global peers, Hong Kong is experiencing IPO drought, with only 16 listings on Mainboard raising HK$14.7 billion. Back in 1Q 2021, there were a total of 31 deals on Mainboard with total fund raised at HK$136.6 billion. Nonetheless, the pipeline remained strong with potential homecoming of US listed China stocks.	▪ The IPO pipeline remained strong with more than 150 companies queueing to float their shares at the moment. Added to that, Hong Kong is set to benefit from the homecoming of ADRs and fund-raising needs from Mainland's high-growth and innovative sectors down the road. The new SPACE regime also brings some momentum to Hong Kong's IPO market, adding more listing route for issuers. Reportedly, the new listing regime received strong market interest and a total of 11 had been filed for SPAC listings. Nonetheless, the regulatory uncertainties over overseas listing (say cybersecurity review), and volatile market may dampen the prospects of IPO market in Hong Kong down the road.

Key Economic News

Facts	OCBC Opinions
▪ Both China's manufacturing PMI and non-manufacturing PMI fell further in April. ▪ Manufacturing PMI fell to 47.4 from 49.5, lowest since Feb 2020 during the first wave of Covid19 outbreak. ▪ Non-manufacturing PMI tumbled to 41.9 from 48.4 led by the decline of service PMI which fell to 40 from 46.7.	▪ Both demand and supply of manufacturing PMI softened as a result of the recent lockdown in Shanghai. Production fell to 44.4 from 49.5 while new orders fell to 42.6 from 48.8. ▪ There are two key differences between the April PMI and Feb PMI in 2020 during the first wave. First, despite softening demand and production, employment index continued to hold up well after falling from 48.6 in March to 47.2 in April, but much higher than 31.8 in Feb 2020. Second, delivery was the weakest link in April down from 46.5 to 37.2, underperforming demand and supply. This is in contrast to the first wave when both production and new orders fell by the most as compared to delivery. This showed that the current slowdown was mainly led by the disruption to the logistics. Given Shanghai's express industry restarted on 27 April, we expect manufacturing PMI to rebound in May. ▪ Despite the disruptions to both manufacturing sector and service sector, China's construction PMI managed to stay in the expansion territory albeit falling from 58.1 to 52.7. This reinforced that infrastructure remains the main driver to growth.
▪ There was CNY6.3 billion net inflows into China's A-share market under stock connect in April.	▪ The return of net inflows into A-share market despite extended lockdown in Shanghai after a sizable net outflow of CNY45 billion in March showed that valuation remains an attractive play to lure foreign interests amid uncertainty.
▪ According to the preliminary reading, Hong Kong's GDP missed market expectations by a large margin and shrank by 4.0% yoy in real term in 1Q 2022, as compared to the 4.7% expansion in the previous quarter. On seasonally adjusted basis, GDP contracted by 2.9% qoq, after staying virtually unchanged in 4Q 2021.	▪ Amid weak domestic and external demand during the fifth wave of Covid-19 outbreak, Hong Kong's economy plunged into contraction in the first quarter of 2022. Private consumption expenditure, gross domestic fixed capital formation and exports of goods turned to notable year-on-year declines of 5.4%, 8.3 and 4.5% respectively (+5.3%, -0.6% and +13.5% yoy respectively in 4Q 2022). Meanwhile, on the back of massive Covid-19 spending, government consumption expenditure expanded further by 5.9% yoy.

	▪ With the city moving to the phase two of reopening, the economy should be back on growth mode starting from the second quarter. Nonetheless, we revise downward our GDP growth forecast to 1.2% in 2022, taking into account the weakened external demand, China's slowing growth prospect and the Fed's aggressive monetary tightening. In addition, the heightened volatility in capital market and consolidation in housing property may have an adverse impact on the real economy via negative wealth effect. The balance of risks facing Hong Kong's economy continued to tilt to the downside, amid global growth concerns.
▪ Hong Kong: The correction in residential property market continued. The year-on-year decline in residential property price index widened to 2.1% in March, from that of 0.2% in the previous month, according to the preliminary figures. Compared to the recent peak in September 2021, the housing prices fell cumulatively by 4.2%.	▪ Analyze by flat size, the large sized properties (Class D and E; saleable area of 100 square meter or above) saw larger year-on-year decline in prices (at -4.8% and -9.6% respectively in March) as compared to mass-market and medium-sized properties. As for rental index, it rose by a smaller 2.1% in March over a year ago. On month-to-month basis, it decreased for the sixth consecutive month by 0.6%. ▪ Going forward, a host of factors should cloud the outlook of the housing market, including large volatilities in asset market, record exodus of residents, global growth concerns and rising interest rate. While financial officials had flagged warning on the increase in mortgage rate (typically based on 1-month HIBOR or prime rates) alongside Fed's tightening cycle, the systematic risk in the housing market remained rather low. According to HKMA's data, more than half of the residential property owners in Hong Kong do not have mortgage loans, and the average payment-to-income ratio of mortgage is at a low level of 36%. Meanwhile, the estimated number of residential mortgage loans in negative equity remained low at 104 cases at end-March, despite a mild uptick.
▪ Hong Kong: Both values of merchandise exports and imports in Hong Kong turned to year-on-year decline in March, falling by 8.9% and 6.0% respectively, as moderating external demand and epidemic induced logistic disruption weighed on trading activities. The geopolitical tensions, global growth concerns and monetary tightening of major central banks will likely drag on Hong Kong's export performance in the near term. Nonetheless, the cross-border transportation disruption should gradually ease as local epidemic stabilized, and its impact on trading activities should alleviate.	▪ Zooming in, exports to major trading partners either grew further at slower paces or turned to decline in March, in particular, that to the China saw year-on-year decline of 12.8%. During the month, trade deficit widened to HK$37.3 billion, as compared to HK$32.1 billion in the previous month. For the first quarter as a whole, the value of merchandise exports and imports increased by 3.4% and 2.9% respectively over a year ago. Yet on quarter-to-quarter basis, they fell by 2.9% and 1.8% respectively. Going forward, Hong Kong's export performance will continue to face multiple headwinds, ranging from elevated inflation, global growth concerns, to the aggressive tightening by Fed and other major central banks against the backdrop of high inflation.
▪ Hong Kong: Total loans and advances edged up by 0.3% mom in March, while total deposit declined marginally by 0.3% mom. Within total, HKD deposits and loans rose further by 0.4% mom and 0.3% mom respectively. As a result, HKD loan-to-deposit ratio fell marginally to 85.2% at end-March from that of 85.3% at end-February. ▪ Hong Kong: Hong Kong's RMB deposits dropped further by 12.7% to RMB791 billion at end-March, as a result of corporate fund flows. The total	▪ During the month, total loan and advances grew by 0.3% mom, attributable to the increase in loans for use in Hong Kong (1.1% mom), while that for outside Hong Kong declined further by 1.6% mom. On deposit, total deposits edged down by 0.3% mom in March, with USD growing by 2.0% while other foreign currency deposits falling by 8.7% mom. On RMB deposits, the amount of RMB holding in Hong Kong may drop further in the near term with the falling short-term yield and rapid depreciation of yuan in late April. ▪ Looking ahead, the growth in loan for use in Hong Kong are

remittance of renminbi for cross-border trade settlement expanded to RMB 791 billion in March, from RMB501 billion in the previous month.	likely clouded by the deteriorating global growth outlook, intensified by China's lockdown measures. Meanwhile, as Fed moves closer to hiking its key policy rate in each of the remaining FOMC meetings in 2022, the risks of liquidity drain are rapidly growing, creating more upside room for local interest rates.
▪ Macau: Border control measures for inbound visitors travelling from Guangdong province are eased before the five-day Labour Day holiday (30 April to 4 May). Travellers can enter Macau without undergoing quarantine arrangement if they hold a negative nucleic acid test certificate issued within 72 hours upon entry. The previous requirement is to present a negative nucleic acid test certificate issued within 48 hours. ▪ Macau: In line with the declining visitor arrival, the hotel occupancy rate in Macau fell to 30.4% in March, from 48.8% in February, the lowest since September 2020. ▪ Macau: Macau's gaming sector continued to be battered by the travel restriction and China's crackdown on cross-border gambling. Gross gaming revenue in April once again missed the market expectations, and plunged 68.1% yoy to MOP2.68 billion, the lowest level since September 2020. Comparing with the first four months of 2021, Macau's gross gaming revenue in 2022 plummeted by 36.2%.	▪ Guangdong province is the largest source of visitors for Macau in recent years (accounting for 38.8% of of total inbound visitors for 2017 - 2021). In the first quarter of 2022, the number of visitor arrivals rose by 20.4% compared with that in the previous year, but remained 62.6% below that of 2019. Macau planned to boost the inbound tourism during the Labour Day holiday by relaxing the entry requirement for visitors from Guangdong province. Nonetheless, local authority in nearby Chinese cities, Zhuhai, advise residents to stay in the city during the holiday and avoid cross-province travels, citing the recent virus resurgence. ▪ Aside from the Omicron outbreak in the region, the strict border control measures (barring visitors from regions outside China and imposing 14-day quarantine requirement) also put Macau in a disadvantaged position, as compared to the other regional gaming hubs which waived quarantine requirement for fully vaccinated inbound travellers (such as Singapore, Malaysia and South Korea). The inbound tourism is unlikely to see sharp recovery in coming months unless the quarantine-free travel bubble is further expanded.
▪ Macau: Unemployment rate in Macau rose further to 3.5%% while underemployment rate dropped to 2.8% during the three months to March. Besides, labor force participation rate declined by 0.2 percentage point to 68.8%, as compared to 4Q 2021. During the same period, total labour force and employed population both went down by 1.2% and 1.6% respectively.	▪ The latest data showed that Macau's labor market continued to weaken, with little hope of reviving soon in the wake of weak domestic demand, ongoing border restriction and large-scale Covid-19 outbreak in China. Analyze by sector, we expect to see employed population of gaming sector, as well as hotel and restaurant sector, to decline further as inbound tourism remained sluggish. The overall unemployment rate may stay above 3.5% in coming months as border re-opening looks unlikely until the second half of 2022.

RMB	
Facts	**OCBC Opinions**
▪ RMB extended its weakness in the last week of April due to broad dollar appreciation.	▪ The selloff extended initially due to weak market sentiment. However, RMB recouped some of the losses after the politburo meeting. ▪ There are signs of coordinated expectation management last week. For example, China unveiled the key messages from the politburo meeting during the middle of trading days instead of usual evening time, which fuelled a strong risk rally in the afternoon. In addition, the SAFE also brought forward the release of 1Q balance of payment data to late April from early May to prove China's resilient current account surplus.

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