Greater China – Week in Review

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Highlights: More Covid restrictions again

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Risk sentiment in China weakened last week despite increasing policy supports due to concerns about the deteriorating Covid situation. More than 100 cities across China reported new cases in the beginning of September, highest since 2020. As such, China stepped up its anti-pandemic measures last week.

Chengdu, the mega city with 21 million populations, extended its stay home notice for another three days to 7 September to all its 12 districts, 4 out of 5 county level cities and 2 out of 3 counties. Although businesses in Chengdu have returned to full production after the power supply was restored and production largely unaffected under closed loop management, the uncertain outlook on virus may continue to weigh down sentiment.

On data, the latest PMI reading painted a relative mild recovery in the third quarter. The improvement of demand was mainly attributable to two factors including the support from more policy stimulus such as the interest rate cut and seasonal demand ahead of the mid-Autumn festival.

Infrastructure investment activities remained the key driver to growth. New orders for construction PMI improved further to 53.4 from 51.1 indicating rising activities associated with recent infrastructure boom.

Nevertheless, challenges remain. First, the pace of recovery was slowed by extreme weather in August. In addition, the resurgence of the virus continued to be the sentiment disruptor. Second, although manufacturing PMI for large and medium sized companies rebounded, manufacturing PMI for small companies fell further to 47.6 from 47.9. This again raised the question about the effectiveness of policy transmission with big companies tend to benefit more from the stimulus than the smaller companies.

Premier Li stressed that details of the additional 19 measures announced in late August should be finalized by early September with the focus on the newly announced more than CNY300 billion policy backed developmental financial instrument. China will expand the eligible projects for this facility and avoid the situation of projects waiting for funding.

Given there is plenty of quality projects in the pipeline, we expect China's fixed asset investment growth to accelerate in the coming months to about 10% yoy on the back of funding support.

On RMB, the persistent widening gap between daily RMB fixing and consensus forecast fuelled speculation that some of the fixing submitting banks may have restarted the counter cyclical factor in their fixing submissions. Regardless of the CCF, the widening gap last week reinforced the view that China has a strong incentive to slow down the pace of RMB depreciation as part of sentiment management amid the rising uncertainty from the property mess and Covid situation.

China's Politburo meeting of the CPC Central Committee confirmed last week that the seventh plenary session of the 19th CPC Central Committee will be convened on 9 Oct and 20th CPC National Congress will be held on 16 Oct, which will lay out the plan for the next five years. According to the Xinhua news agency, the congress will thoroughly review the international and domestic situations as well as meeting the new expectations of the people. Market will watch out for any possible change of China's zero Covid policy.

The pressure on governments to further relax the border measures mounted in **Hong Kong** and **Macau** as the economic pain from restricting inbound tourism became more noticeable. Hong Kong government has secured preliminary support from China on the reverse quarantine arrangement for travellers visiting Mainland China from Hong Kong. Meanwhile, Macau government announced to allow entry of foreign nationals from 41 designated countries (including US, UK, Canada, Japan, Korea, Singapore, Malaysia and Thailand etc.) after serving 7-day of hotel quarantine and 3-day of health monitoring.

The largely stabilized epidemic situation and improved job market are supportive of the consumer sentiment in Hong Kong in July. The value of total retail sales resumed moderate year-on-year growth at 4.1% during the month. Looking ahead, with the distribution of more consumption vouchers and eased border measures, we should see further increase in retail sales. Yet we remain cautious to the risks posed by the external headwinds and tighter financial conditions.

The decline in housing price in Hong Kong became more entrenched lately. According to the preliminary figures, the year-on-year decline in residential property price index widened further to 5.5% in July. On trading front, the number of sales and purchase agreement of residential properties plunged by 51.6% and 25.4% year-on-year in July and August respectively. The current price correction trend is in line with our conviction that the property market in Hong Kong will undergo a moderate price correction in 2022. We expect the overall residential price to fall by 6%-8% during the year.

Key Events and Market Talk	
Facts	**OCBC Opinions**
▪ China stepped up its anti pandemic measures last week.	▪ More than 100 cities across China reported new cases in the beginning of September, highest since 2020. ▪ Chengdu, the mega city with 21 million populations, extended its stay home notice for another three days to 7 September to all its 12 districts, 4 out of 5 county level cities and 2 out of 3 counties. Although businesses in Chengdu have returned to full production after the power supply was restored and production largely unaffected under closed loop management, the uncertain outlook on virus may continue to weigh down sentiment.
▪ China's State Council called for more efforts to boost effective demand and reduce institutional costs for companies.	▪ Premier Li stressed that details of the additional 19 measures announced last week should be finalized by early September with the focus on the newly announced more than CNY300 billion policy backed developmental financial instrument. China will expand the eligible projects for this facility and avoid the situation of projects waiting for funding. ▪ In addition, the State Council meeting also said it will continue to guide banks to provide more medium to long term loan support. Meanwhile, the State council will send another batch of working group to different provinces to minimize the implementation risk.
▪ China's Securities regulator announced more measures to enhance Hong Kong's role as a global financial centre.	▪ China's announced to expand the stock connect trading scheme to include more foreign companies listed in Hong Kong. In addition, China will also encourage more Chinese companies to issue Yuan denominated global depositary receipt in Hong Kong. On fixed income, China will promote the Chinese government bond future in Hong Kong as well as open onshore bond futures to more foreign investors.
▪ Hong Kong government has secured preliminary support from China on the reverse quarantine arrangement for travellers visiting Mainland China from Hong Kong.	▪ Currently, all travellers will have to undergo 7 days of mandatory hotel quarantine followed by 3 days of health monitoring when entering Mainland China, aside from presenting the negative nucleic acid test. Under the new arrangement, visitors will be able to serve their quarantine requirement in Hong Kong, and can travel to Mainland in a closed-loop path. According to Hong Kong officials, the details to the arrangement and date of commencement still need to be worked out between the two sides. ▪ Reportedly, the government is also looking into ending the hotel quarantine in November, though health official dismissed the report. The recent surge in Covid cases (Hong Kong recorded the highest caseload in more than five months on Sunday) had prompted health officials to push back on plans to relax border control. We expect the road to reopen remained bumpy ahead.
▪ Macau government announced to allow entry of foreign nationals from 41 designated countries (including US, UK, Canada, Japan, Korea, Singapore, Malaysia and Thailand etc.) after serving 7-day of hotel quarantine and 3-day of health monitoring, starting from 1 September.	▪ According to the Macau's official, the phrased reopening was to ensure a balance between reviving the local economy and adhering to the covid zero strategy. The current list of 41 countries will be expanded gradually, upon further assessment and preparation. ▪ While we do not expect the eased measure to bring meaningful number of visitors back to the gambling hub, this

	marked a significant step towards reopening since Macau shut its border to most foreign nationals in early 2020. The pressure to reopen border mounted lately as the labour market weakened notably. The unemployment rate surged to 4.1% for three-month ending July, the highest since 2005.

Key Economic News

Facts	OCBC Opinions
▪ China's official manufacturing PMI improved slightly to 49.4 in August from 49 in July. ▪ Non-manufacturing PMI, however, softened to 52.6 in August from 53.8 in July.	▪ Production index remained intact in August at 49.8 while new orders rebounded slightly to 49.2 from 48.5. The improvement of demand was mainly attributable to two factors including the support from more policy stimulus such as the interest rate cut and seasonal demand ahead of the mid-Autumn festival. New orders for food and beverage industries rose to 55 and above. In addition, business expectation also improved slightly to 52.3 from 52. ▪ Infrastructure investment activities remained the key driver to growth. China's construction PMI stayed well above 50 at 56.5. Meanwhile, new orders for construction PMI improved further to 53.4 from 51.1 indicating rising activities associated with recent infrastructure boom. ▪ Nevertheless, challenges remain. First, the pace of recovery was slowed by extreme weather in August. In addition, the resurgence of the virus continued to be the sentiment disruptor. The decline of service PMI to 51.9 from 52.8 showed the negative impact of extreme weather and Covid19. Second, although manufacturing PMI for large and medium sized companies rebounded, manufacturing PMI for small companies fell further to 47.6 from 47.9. This again raised the question about the effectiveness of policy transmission with big companies tend to benefit more from the stimulus than the smaller companies. ▪ Looking ahead, we expect China's manufacturing PMI to improve further given the decline of finished goods inventory which fell to 45.2 from 48. This may create the room for restock in the coming months. In addition, the relative low cost pressure with both raw material input price index below 50 is also supportive for the recovery of manufacturing activity in the coming months. ▪ Overall, the latest PMI data painted a relative mild recovery in the third quarter. Nevertheless, the shallower than expected recovery also showed more policy supports needed.
▪ The largely stabilized epidemic situation and improved job market are supportive of the consumer sentiment in July. The value of total retail sales resumed moderate year-on-year growth at 4.1% during the month. Looking ahead, with the distribution of more consumption vouchers and eased border measures, we should see further increase in retail sales. Yet we remain cautious to the risks posed by the external headwinds and tighter financial conditions.	▪ Most of the retail outlets saw larger growth or smaller year-on-year decline in retail sales in July. The rebound in retail sales was mainly led by the surge in sales of jewellery, watches and valuable gifts (+28.3% yoy), and fuels (+9.0% yoy). Meanwhile, the enlarged decline in sales in department stores (-9.7% yoy) continued to weigh on the overall performance of retail sales market. ▪ Looking ahead, with the distribution of more consumption vouchers, we should see further increase in retail sales, though we remain cautious to the risks posed by the external headwinds and tighter financial conditions. Added to that, the

	eased border measures may bring in more visitors and contribute to the retail sales.
▪ The decline in housing price in Hong Kong became more entrenched lately. According to the preliminary figures, the year-on-year decline in residential property price index widened further to 5.5% in July.	▪ 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 July at 5.5%, as compared to large-sized properties (Class D and E; saleable area of 100 square meter or above) at 4.1%. As for rental index, the year-on-year decline remained at 0.8% in July. ▪ On trading front, the number of sales and purchase agreement of residential properties plunged by 51.6% and 25.4% year-on-year in July and August respectively. The current price correction trend is in line with our conviction that the property market in Hong Kong will undergo a moderate price correction in 2022. We expect the overall residential price to fall by 6%-8% during the year.
▪ Macau's gross gaming revenue in August staged a strong rebound from that of July, as lockdown measures and strict border controls were scrapped in early August. Nonetheless, the figure was down by 50.7% compared to a year ago, at MOP2,189 million. In the first eight months of 2022, the gaming revenue fell by 53.4% YoY.	▪ Despite the resumption of quarantine free travel between Zhuhai and Macau, the gross gaming revenue remained below that the monthly average of MOP4,378 million in the first half of 2022. We believe the Covid uncertainties and the fear of government imposing sudden lockdown orders continued to restrict inbound tourism in the near future.

RMB	
Facts	**OCBC Opinions**
▪ The USDCNY consolidate around 6.90 level despite further rally of broad dollar index to more than 109.5. As such, RMB index rebounded last week to 102 range.	▪ The persistent widening gap between daily RMB fixing and consensus forecast fuelled speculation that some of the fixing submitting banks may have restarted the counter cyclical factor in their fixing submissions. Regardless of the CCF, the widening gap last week reinforced the view that China has a strong incentive to slow down the pace of RMB depreciation as part of sentiment management amid the rising uncertainty from the property mess and Covid situation.

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