Highlights: Record trade surplus despite heightening geopolitical risk

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Chinese People's Liberation Army concluded its four-day military drills surrounding the island of Taiwan with six exercise zones on Sunday. Traffic is expected to resume this week with Taiwan's transport ministry told the airlines to gradually resume flights. The last day's PLA drills featured island attack according to the news by Chinese media.

Although there is rising concern that the recent military drill may become the start of more routine exercises around the island going forwards, the end of drill is a relief to the market as it signals the de-escalation of the crisis in the near term.

Overall, market was relatively calm last week as China did not physically block Pelosi's visit to Taiwan. US and China are likely to continue to argue who is responsible for the change of status quo this week, but the financial market is likely to move on.

Domestically, the resurgence of Covid remains the key challenge to China's recovery. The popular beach city Sanya in Hainan province announced to impose static management starting from 6 Aug due to recent Covid flare-up in the city. Around 80K tourists were stranded. The partial lockdown in Sanya has very limited impact on the Chinese economy. Nevertheless, it may deter people's willingness for interregional travel during the peak season, which may dampen the tourism recovery.

China's July goods trade surprised to the upside with total trade growth accelerated to more than 11%. China's trade surplus widened to a record high of US$101.27 billion as a result of stronger than expected export growth, which rose by 18% yoy. The strong demand from ASEAN and EU offset the moderate export growth to the US.

China's trade surplus with ASEAN hit a record high of US$19.4 billion with share of China-ASEAN trade in China's total trade rose to 15%, sign of increasing economic integration within Asia.

On service trade, China's total service trade in the first of half year rose by 21.6% yoy. Under China's balance of payment, service trade deficit narrowed in the first half due to restricted overseas travel. Nevertheless, China's exports of computer, telecom and information technology service improved further with total exports in the first half of the year rose by 17% yoy.

According to the advance estimates, **Hong Kong's** real GDP contracted by 1.4% for the second quarter, extending the decline registered in the previous quarter (1Q: -3.9% yoy). External demand shrank notably on the back of multiple headwinds, including worsened global economic outlook, lingering geopolitical tensions, aggressive interest rate hikes by major central banks and Covid uncertainties in Mainland China, while domestic demand largely held up. On seasonally adjusted basis, GDP expanded by 0.9% quarter-to-quarter (1Q: -2.9% qoq), as Covid disruptions subsided.

Given that the abovementioned external headwinds are likely persist into the second half of 2022, the growth outlook for Hong Kong deteriorated. We revised downward our growth forecast for Hong Kong to -0.4% yoy for the whole year. The government is also set to revise downward its full-year growth forecast of 1%-2% in mid-August.

Macau's gross gaming revenue in July hit the lowest level since 2003 as casinos were ordered to shut from 11 July to 23 July amid the local Covid outbreak. The figure plunged to MOP398 million in July, down by 95.3% compared to a year ago. In the first seven months of 2022, the gaming revenue fell by 53.6% YoY.

Key Events and Market Talk	
Facts	**OCBC Opinions**
▪ China's popular beach city Sanya announced to impose static management starting from 6 Aug due to recent Covid flare-up in the city.	▪ Around 80K tourists were stranded. The tourists will only be able to leave the island after 7-day risk assessment. Although China has eased its Covid control gradually, the recent 7-day static management in popular tourist spot Sanya added uncertainty to China's recovery of tourism.

Key Economic News	
Facts	**OCBC Opinions**
▪ China's July trade growth surprised to the upside. Export in dollar term rose by 18% yoy while import grew by 2.3% yoy. ▪ Trade surplus widened to a record of US$101.27 billion.	▪ Exports to US slowed down to 10.97% yoy from 19.32% while exports to EU and ASEAN accelerated to 23.17% yoy and 33.49% yoy from 17.12% yoy and 29.04% yoy respectively. ▪ China's trade surplus with ASEAN widened to a record high of US$19.4 billion in July. The share of China's total trade with ASEAN rose to 15% from 14.9%. ▪ On imports, imports of crude oil by volume fell by 9.49%. However, imports of crude oil by value rose by 38.88% yoy as oil prices remained elevated despite falling from the peak. Demand for iron ore rebounded slightly with total imports of iron ore by volume increased by 3.1% yoy. China's imports of integrated circuit remained weak with both imports by value and by volume fell by 2.75% yoy and 19.64% yoy respectively.
▪ According to China's Ministry of Commerce, China's total service trade rose by 21.6% yoy in the first half of 2022 to CNY2.89 trillion.	▪ Exports of service trade rose by 24.6% yoy in the first half while imports of service trade rose by 18.9% yoy. Service trade deficit narrowed to CNY79.19 billion. ▪ Under China's balance of payment, China's service trade deficit narrowed. Exports of computer, telecom and information technology improved further with total exports in the first half of the year rose by 17% yoy.
▪ Hong Kong's advance GDP print for 2Q were markedly below market consensus and our expectations, at -1.4% yoy and 0.9% qoq sa. The miss was mainly attributed to the weak performance in external trade on the back of escalating external headwinds.	▪ According to the advance estimates, Hong Kong's real GDP contracted by 1.4% for the second quarter, extending the decline registered in the previous quarter (1Q: -3.9% yoy). External demand shrank notably on the back of multiple headwinds, including worsened global economic outlook, lingering geopolitical tensions, aggressive interest rate hikes by major central banks and Covid uncertainties in Mainland China, while domestic demand largely held up. On seasonally adjusted basis, GDP expanded by 0.9% quarter-to-quarter (1Q: -2.9% qoq), as Covid disruptions subsided. ▪ Zooming in, year-on-year declines on exports of goods widened to 8.6% in 2Q (1Q: -4.5% yoy), completely offsetting the moderated declines/ growth in other components. Gross domestic fixed capital formation recorded narrower decline of 3.0% from a year ago (1Q: -7.8% yoy), while that of private consumption expenditure stayed virtually unchanged (1Q: -5.8% yoy). On the other hand, on the back of massive Covid spending, government consumption expenditure expanded further by 13.0% yoy (1Q: +6.7% yoy). ▪ Given that the abovementioned external headwinds are likely persist into the second half of 2022, the growth outlook for Hong Kong deteriorated. We revised downward our growth forecast for Hong Kong to -0.4% yoy for the whole year. The

	government is also set to revise downward its full-year growth forecast of 1%-2% in mid-August.
▪ Hong Kong: In June, value of total retail sales recorded moderated year-on-year decline of 1.2%, reflecting the still weak consumer sentiment. For the first half of 2022, despite the rollout of consumption voucher scheme, the value of retail sales still fell by 2.6% yoy amid the dire covid situation in the first quarter.	▪ Analyze by the retail outlets, the decline in retail sales in June was mainly attributed to the decreases in sales of consumer durable goods (-11.0% yoy), and clothing and footwear (-4.6% yoy). Aside from that, the sales of department stores (-2.4% yoy) and supermarkets (-0.3% yoy) fell further, albeit at slower paces. Meanwhile, we note that the value of sales of fuels picked up, likely boosted by higher oil prices. ▪ Looking ahead, the retail sales will likely be boosted by the distribution of the second batch of consumption voucher. Added to that, traffic and passenger flows also picked up gradually over the last few months, paving way for rebound in retail sales.
▪ Hong Kong's private sector expanded for the fourth straight month in a row in July. PMI edged down to 52.3 in July, from that of 52.4 in June, though still remained in the expansionary zone. Domestic demand and business activity expanded further, while external demand continued to see contraction.	▪ External demand and new businesses from Mainland China shrank further in July, in line with the declining trend in merchandise exports in recent months. However, business activity continued to benefit from the looser social distancing measures and local demand. Inflationary pressure was also building up, amid rising raw material and transportation costs. Meanwhile, labor shortage persisted, and attracting and attaining talents were more costly and difficult. ▪ Looking ahead, we expect the external demand to remain sluggish. Yet, Hong Kong's PMI should still stay in the expansionary zone in the third quarter of 2022 with support from the domestic demand.
▪ Macau's gross gaming revenue in July hit the lowest level since 2003 as casinos were ordered to shut from 11 July to 23 July amid the local Covid outbreak. The figure plunged to MOP398 million in July, down by 95.3% compared to a year ago. In the first seven months of 2022, the gaming revenue fell by 53.6% YoY.	▪ The loss of gaming revenue and stringent antivirus measures weighed heavily on the local economy in July. The unemployment rate was pushed up to 3.7%, the highest since 2009. To revive the economy, quarantine-free travel between Macau and the neighboring Mainland city Zhuhai was resumed. Under the arrangement, visitors travelling from Macau to Zhuhai would be required to present negative nucleic test result, take another test within 48 hours of arrival and refrain from using public transportation or attending public gathering. ▪ Visitor arrivals and gaming revenue will likely see some rebounds in the near term as border reopened. Nonetheless, with much Covid uncertainties remained, the risks facing Macau's economy stayed tilted to the downside.

RMB	
Facts	**OCBC Opinions**
▪ The USDCNY hovered around 6.75 in the past week.	▪ RMB weakened initially due to concerns about China's reaction towards Pelosi's visit to Taiwan. Nevertheless, the relative muted reaction from China side calmed down the market with the USDCNY retreated form the high back to 6.75 range. China's strong trade surplus failed to support the RMB as market will continue to digest the impact of the recent Taiwan Straits tension.

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