OCBC TREASURY RESEARCH

Greater China – Week in Review

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Highlights: assessing the impact of lockdowns on economic data

The struggle in Shanghai continues with some of the districts will go into "silent period" again until 10 May. Nevertheless, Beijing reported zero new cases at the community level outside control zone on Sunday for the first time in the past two weeks.

Despite overall improving situation with daily new cases falling from the peak, the disruption to overall economic activities has not lessened.

China's logistics sector contracted further with its logistics performance index fell to 43.8 in April from 48.7. Elsewhere, Domestic trips made during the five-day Labor Day holiday fell by 30.2% yoy to 160 million trips while travel revenue fell by 43% yoy to CNY64.7 billion.

For this week, the release of China's April data will offer investors first glimpse of the full-blown impact of lockdowns in some cities.

On property, the latest PBoC data showed the improving credit support to property developers in China. New loans to Chinese developers increased by CNY290 billion, reversing the decrease in the previous quarters in 2021. The rise of outstanding property development loan to a record high of CNY12.56 trillion showed easing restriction of property loans to developers.

John Lee was formally confirmed as Hong Kong's next Chief Executive, after receiving 1416 votes from the election committee. His term would start on 1 July 2022.

On economic front, the Financial Secretary announced to cut economic growth forecast for Hong Kong this year, citing unfavourable factors such as the Fed's aggressive tightening, geopolitical tensions and elevated global inflation. The previous economic growth forecast was set at 2%-3.5%, and revised figure will be announced next week. Earlier on, we have also revised downward our GDP growth forecast to 1.2% in 2022.

On data front, Hong Kong's PMI rebounded back from 42.0 in March to the expansionary zone at 51.7 in April, after three straight months of contraction, as Covid cases fell substantially since late March. Reflecting the situation before the local epidemic situation was under control, Hong Kong's retail sales dropped by 13.8% year-on-year in March.

Key Events and Market Talk	
Facts	**OCBC Opinions**
▪ Beijing reported zero new cases at the community level outside control zone on Sunday for the first time in the past two weeks.	▪ The struggle in Shanghai continued with some of the districts will go into "silent period" again for two days until 10 May. ▪ Despite overall improving situation with daily new cases falling from the peak, the disruption to overall economic activities has not lessened. ▪ The balance between short term economic cost and long term benefit will be assessed by investors.
▪ Hong Kong: John Lee was formally confirmed as Hong Kong's next Chief Executive, after receiving 1416 votes from the election committee. His term would start on 1 July.	▪ John Lee said that his top priority would be solving the housing problem after assuming office, as the predicament remained unresolved for the past two decades and were seen as one of the deep-rooted social issues in Hong Kong. In his manifesto, Lee stated that he would streamline procedures to expedite land and housing development and keep home prices steady. ▪ Hong Kong's housing remained one of the least affordable worldwide. In the final quarter of 2021, the index of home purchase affordability (i.e. the ratio of mortgage payment for a 45-square metre flat to median income of households, excluding those living in public housing) stayed high at 74%, way above the long-term average of 47% over 2001-2020. While the undergoing price correction in property market (residential property price index down by 4.2% since September 2021) should help to ease the affordability issue, we believe the key of solving the housing problem remains in increasing the long-term supply of land and housing.
▪ Hong Kong: The Financial Secretary announced to cut economic growth forecast for Hong Kong this year, citing unfavourable factors such as the Fed's aggressive tightening, geopolitical tensions and elevated global inflation. The previous economic growth forecast was set at 2%-3.5%, and revised figure will be announced next week. Earlier on, we have also revised downward our GDP growth forecast to 1.2% in 2022.	▪ While the domestic demand is recovering from the shock wave of the local epidemic, the risks associated with the external environment continues to pose threat to Hong Kong's economy this year. In the first quarter of 2022, Hong Kong's economy contracted by 4.0% over a year ago, on the back of worsened Covid-19 outbreak and tightened social distancing measures. We have revised 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 Hong Kong Monetary Authority (HKMA) raised its benchmark interest rate by 50 bps, following the rate hike by the US' Federal Reserve. Major local banks, on the other hand, kept their best lending rate unchanged.	▪ We expect 50bp hike each at the June/ July FOMC meeting, and 25bp hike each at September/ November/ December meetings, bringing the Fed funds target rate to 2.50-2.75% at year-end, a tad higher than the Fed's perceived neutral level. The HKMA is expected to raise the benchmark interest rate accordingly. For Hong Kong dollar interbank rates, the 1-month/3-month HIBOR currently stands at 0.1772% and 0.7489% respectively, little changed from a week ago as the Fed's rate hike was largely anticipated by the market. Based on the expected Fed rate hike trajectory, we expect these rates to reach 2.0% or above by year-end. ▪ On HKD exchange rate, spot USDHKD grinded higher over the past week and is trading around 5 pips below the 7.8500 level on last Friday. We expect the pair to hit the weak-side

	convertibility undertaking soon, followed by HKMA's foreign exchange intervention. While we feel the market is partly prepared for a foreign exchange intervention scenario, as it comes it may still put some upward pressure on HKD interest rates.

Key Economic News

Facts	OCBC Opinions
▪ China's outstanding RMB property loan rose by 6% yoy in 1Q to CNY53.22 trillion. Of which, outstanding personal housing loan rose by 8.9% yoy to CNY38.84 trillion while outstanding property development loan fell by 0.4% yoy to CNY12.56 trillion.	▪ The latest PBoC data showed the relative easing credit condition to property developers in China. New loans to Chinese developers increased by CNY290 billion, reversing the decrease in the previous quarters in 2021. The rise of outstanding property development loan to a record high of CNY12.56 trillion showed easing restriction of property loans to developers.
▪ China's FX reserve fell by US$68.3 billion to US$3.1197 trillion in April.	▪ The decline of FX reserve is mainly due to the correction of global asset prices and sharp appreciation of the US dollars. According to the SAFE, there is still net inflows into China in April.
▪ Domestic trips made during the five-day Labor Day holiday fell by 30.2% yoy to 160 million trips while travel revenue fell by 43% yoy to CNY64.7 billion.	▪ The sharp decline of tourist traffic was mainly due to tightening people movement control amid the new wave of Covid-19.
▪ China's logistics sector contracted further in April with its logistics performance index fell to 43.8 from 48.7 in April.	▪ Both new orders and employment fell further in April due to China's tightened pandemic control. Nevertheless, business expectation index remained in the expansion territory.
▪ Hong Kong's PMI rebounded back from 42.0 in March to the expansionary zone at 51.7 in April, after three straight months of contraction, as local epidemic situation came under control. Business sentiment took a turn for the positive, while both new orders and output returned to expansion. We expect PMI to stay above the boom-bust divide taking into consideration the effect of consumption voucher and more reopening measures down the road.	▪ That said, foreign demand continued to fall amid supply chain disruption caused by the lockdown measures in Mainland China. Aside from that, hiring and purchasing activities remained cautious, as recovery has yet to gather momentum. Meanwhile, input prices climbed further alongside that of purchase price and wages. Looking ahead, as Hong Kong entered second phase of reopening and recovery started to gather pace, most of the components are expected to rise further in May.
▪ Hong Kong's retail sales extended year-on-year decline in March, albeit at a slower pace of 13.8%. The fall in consumer spending was largely due to the uncontained local epidemic and extended social distancing measures during that period. In real terms, total retail sales dropped by a moderated 16.8% yoy in March, as compared to that of 17.6% in February. For the first quarter of 2022, the fifth wave of infection posed a significant drag on retail sales, causing it to fall by 7.6% from a year ago.	▪ Analyzed by retail outlet, aside from sales of items in supermarket (+2.6% yoy in March), most of the outlets continued to contract in sales, though around half saw moderated declines. The retail market is likely to revive in the next couple of months as local virus cases stayed low and private consumption received further boost from the handout of e-consumption vouchers. We expect to see Hong Kong's retail sales reverting to year-on-year growth in April on the back of pent-up demand and stimulus measures.

RMB

Facts	OCBC Opinions
▪ RMB weakened further against the dollar last week with the USDCNH breaking above 6.70.	▪ RMB's weakness was driven by both idiosyncratic issue and broad dollar strength. The unusual high correlation between RMB and China's equity performance reflects the rising concern about weak growth prospect amid lockdowns.

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