Highlights: from bottom-up to top-down

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The Chinese risk assets outperformed last week led by the rebound of tech names after Vice Premier Liu He reiterated to support the platform economy and private economy. In addition, Premier Li called for local governments to bring forward more measures in May in order to bring the economy back to track quickly in his meeting with local government officials from 12 provinces.

China lowered its 5-year LPR fixing by 15bps although it kept both 1-year MLF rate and 1-year LPR fixing unchanged. This was the second time that China lowered its LPR without cutting its MLF rate and the first time that the structural targeted interest rate focused on 5-year rate.

The reduction of long-term benchmark interest rate showed that China has stepped up its pro-growth policy supports. This targeted structural interest rate cut, together with the announcement from PBoC on 15 May to allow commercial banks to lower its floor of mortgage rate for the first-time home buyers by 20bps, showed that China has reckoned that property market is the weakest link in Chinese economy.

The 5-year LPR cut is more like a tail risk management in our view. To further stabilize market confidence, China has switched from bottom-up approach such as allowing local governments to refine their own property measures to top-down approach. This is likely to be more efficient.

However, given still weak job market outlook due to Covid-19 restriction and regulatory tightening in tech sectors, we think the latest easing may not lead to revenge purchase. As such, we think there is still room for China to ease its policy further to support property market.

On market implications, we think China's equity market is in a sweet spot as the latest measures reinforced the view that China is in both easing money and easing credit mode. Historically, this is the best policy combination for equity market.

In addition, the intact of 1-year LPR fixing showed China is still concerned about the impact of inverted China-US yield differential and uncertain inflation outlook. This showed a balance approach to support the economy without causing more volatility in the currency market. The recent improving risk sentiment may remove RMB's idiosyncratic risk.

The impact on China's bond market is more mixed. The latest LPR cut also fuelled expectation on additional special bond issuance. As a result of the VAT tax refund, China's fiscal revenue year to date fell by 4.8% yoy. However, after adjusting for CNY800 billion VAT tax refund, the fiscal revenue could have slowed to 5.5% yoy as well. The supply concern may cap the upside for bond prices.

In addition, on demand side, foreign ownership of government bonds fell to 10.52% from the peak of 11.14% in January 2022 while foreign ownership of policy bank bonds fell to 4.86% from the peak of 5.51% in December 2021. Given the Fed is expected to deliver another 100bps rate hike in June and July, the outflow may continue for a while in line with other emerging markets.

Hong Kong's Chief Executive elect John Lee is reportedly mulling a closed loop travel arrangement allowing quarantine-free business travel to the mainland. With point-to-point transport and sealed off facilities, it minimizes the risk of spreading virus to the community, while keeping businesses and productions running.

On economic data front, the labour market situation in Hong Kong remained dire, with unemployment and underemployment rate rising further by 0.4 and 0.7 percentage point, to 5.4% and 3.8% respectively in February 2022 – April 2022. The labour market should see improvement in the coming months, in tandem with the stabilized epidemic situation, phase two reopening measures, rollout of consumption voucher scheme, and the job support measures.

Macau's visitor arrivals saw further year-on-year decline, albeit by a moderated pace, at 23.7% in April, largely due to the antivirus restrictions and border control in the region. On top of that, the slowing growth in Mainland China, may further weigh on inbound tourism sector in Macau.

Key Events and Market Talk	
Facts	**OCBC Opinions**
▪ China's 5-year LPR fixing was lowered by 15bps while 1-year LPR fixing was kept unchanged.	▪ The 15bps cut of 5-year LPR was much larger than market expectation. This was the second time that China lowered its LPR without cutting its MLF rate. This was also the first time that the structural targeted interest rate focused on 5-year rate. ▪ There are two reasons why China lowered its LPR fixing while keeping MLF rate intact. First, China is still concerned about the impact of inverted China-US yield differential and uncertain inflation outlook. As such, the intact of 1-year MLF and LPR rates will alleviate the pressure for US-China yield differential to widen further. Second, the LPR was also the result of falling banks' funding costs thanks to China's deposit rate reform which led to 10bps decline of new deposit rate in the last week of April. ▪ The reduction of long term benchmark interest rate showed that China has step up its pro growth policy supports. This together with the announcement from PBoC on 15 May to allow commercial banks to lower its floor of mortgage rate for the first-time home buyers by 20bps means another 35bps reduction of mortgage rate. The targeted structural interest rate cut showed that China has reckoned that property market is the weakest link in Chinese economy. ▪ The 5-year LPR cut is more like a tail risk management in our view. To further boost market confidence, China has switched from bottom-up approaches to top down approach which is likely to be more efficient in stabilizing property market. However, given still weak job market outlook due to Covid-19 and regulatory tightening in tech sectors, we think the latest easing may not lead to revenge purchase. As such, we think there is still room for China to ease its policy to support property market. ▪ On market implications, we think China's equity market is in a sweet spot as the latest measures reinforced the view that China is in both easing money and easing credit mode. Historically, this is the best policy backdrop for equity market. China's caution about 1-year MLF and LPR showed that the calibrated easing is not targeting at RMB. As such, we see limited downside on RMB in the near term. Should investors are convinced that China will be able to keep tail risk in check, we think it may be positive for RMB.
▪ Premier Li called for more supports to stabilize growth and employment in his latest meeting with government officials from 12 provinces including China's top 10 in terms of economic size.	▪ Premier Li believes that there is still room for policy maneuver in the face of new challenges. Given most policy supports from previous meetings will be implemented in the first half of 2022, Premier Li called for local governments to bring forward more measures in May in order to bring the economy back to track quickly. ▪ On logistics, Premier Li urged to smoothen industrial and supply chains. Meanwhile, he also reiterated that China will encourage the public listing of companies in digital and platform economies.
▪ Hong Kong: The Chief Executive elect John Lee is	▪ The government currently is balancing two needs, containing

reportedly mulling a closed loop travel arrangement allowing quarantine-free business travel to the mainland.	virus spread and resuming cross-border flows, both of paramount importance. According to media sources, John Lee is working towards allowing closed-loop quarantine-free business travel to the mainland. With point-to-point transport and sealed off facilities, it minimizes the risk of spreading virus to the community, while keeping businesses and productions running. This is an approach frequently been deployed in mainland China during the recent lockdowns. ▪ While Shanghai was edging close to gradual reopening, the ongoing spread in Beijing and other parts of China challenged Lee's attempt to resume travel. The business community urged the government to draft a clear road map for travel resumption with the mainland and other foreign countries, in order to maintain Hong Kong's status as an international financial centre.

Key Economic News

Facts	OCBC Opinions
▪ China's fiscal revenue tumbled by 41.3% yoy April led by the decline of tax revenue, which fell by 47.3% yoy.	▪ The sharp decline of fiscal revenue was mainly due to the VAT tax refund and pandemic induced people movement control. China has announced in March that it will increase the VAT tax refund this year by additional CNY1.5 trillion starting from April. To Ministry of Finance's surprise, the VAT refund has reached CNY800 billion in April, much faster than expected. This refund has been mainly financed by the PBoC profit transfer, which has reached CNY800 billion in early May. ▪ As a result of this VAT tax refund, China's fiscal revenue year to date fell by 4.8% yoy. However, after adjusting for CNY800 billion VAT tax refund, the fiscal revenue could have grown by 5.5% yoy.
▪ Foreign holdings of interbank Chinese bonds fell by CNY88.05 billion in April. ▪ In addition, foreign holdings of exchange listed papers, MTNs and NCDs also fell by CNY20.43 billion in April.	▪ For breakdown, foreign investors reduced their holdings of central government bonds and policy bank bonds by CNY42 billion and CNY40.8 billion respectively. As a result, foreign ownership of CGB fell to 10.52% from the peak of 11.14% in January 2022 while foreign ownership of PBBs fell to 4.86% from the peak of 5.51% in December 2021. ▪ The persistent outflows for the past three months reflected the impact of faster than expected US interest rate adjustment.
▪ Hong Kong: The labour market situation in Hong Kong remained dire, with unemployment and underemployment rate rising further by 0.4 and 0.7 percentage point, to 5.4% and 3.8% respectively in February– April 2022. All the major economic sectors recorded higher unemployment and underemployment rates, third month in a row. In particular, the unemployment rate of consumption- and tourism-related sectors soared to 10.0%, the highest since March 2021. Going forward, the stabilized epidemic situation, phase two reopening measures, increased spending due to consumption voucher scheme, and the job support measures should cap the upside of unemployment rate.	▪ The surge in jobless rate can be largely attributed to Omicron outbreak since January this year. Unemployment rate rose notably from 3.9% in November 2021 – January 2022 to 5.4% in February – April 2022. During the same period, the unemployment rate in retail, accommodation and food sectors rose from 5.5% to 10.0%, as the consumption-related activities were disrupted by social distancing measures. ▪ On the other hand, we note that the labour force declined at a faster pace of 3.2% as compared to last year, on the back of aging population and exodus of residents. The labour market should see improvement in the coming months, in tandem with the stabilized epidemic situation, phase two reopening measures, rollout of consumption voucher scheme, and the job support measures.

▪ Macau's visitor arrivals saw further year-on-year decline, albeit by a moderated pace, at 23.7% in April, largely due to the antivirus restrictions and border control in the region. On top of that, the slowing growth in Mainland China, may further weigh on inbound tourism sector in Macau.	▪ The number of visitor arrivals grew by 15.2% in April compared to the prior month as major cities in the Guangdong province reopened in late March after lockdown (Shenzhen) and eased some restrictive measures. The number of overnight visitors fell sharply by 59.8% yoy, while that for same-day visitors rose further by 23.7% yoy. ▪ As major Chinese cities moved closer to gradual resumption of businesses and productions, we expect the visitor number crunch may be eased in periods ahead. Nonetheless, as the growth momentum slowed in Mainland China, the number of inbound visitors may still stay at a relatively low level, stalling the pace of economic recovery in Macau.

RMB	
Facts	**OCBC Opinions**
▪ RMB recouped some losses with the USDCNY ended the week below 6.70.	▪ RMB received two supports last week including the retreat of broad dollar index and improving risk sentiment domestically after China stepped up its policy supports to stabilize its growth. With the RMB index returning back to 100 handle, we expect market may move away from RMB's idiosyncratic risk.

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