

## Greater China – Week in Review

26 September 2022

**Highlights: RMB Internationalization not disrupted by the rising RMB volatility**

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Risk sentiment weakened further in China last week as global equity market corrected due to the hawkish Fed although China's A-share outperformed MSCI China and its global peers with much milder correction.

China's State Council continued to roll out new measures on the weekly basis to support the economy. In its latest meeting last week, the State Council announced that highway tolls for truck will be cut by 10% in 4Q. Targeted financial policy support will be provided to highway toll operators to lower their financing costs as appropriate.

In addition, the latest meeting **shifted its focus to policy implementation** following the recent ninth round of accountability inspection by the State Council in some localities. Local governments are urged to fulfil their due responsibilities for stabilizing the economy and meeting people's basic needs.

Policy measures to boost investment and consumption will be advanced on a priority basis, such as fiscal, taxation and financial support for key infrastructure projects and equipment upgrading and renovation.

On Covid, China Center for Disease Control and Prevention (CDC) said in the latest weekly report that a well-timed second booster shot is necessary for a safe, long-time exit from the pandemic. China has started clinical research on the second booster shot.

Meanwhile, China's central bank unveiled its long-awaited 2021 RMB Internationalization report though the report was overshadowed by the recent rapid depreciation of RMB.

Total RMB denominated cross border payment and receipt rose by 31.3% yoy in 2021 and 15.7% yoy in the first half of 2022. **Singapore accounted for 11.3% of total RMB denominated cross border payment and receipt in 2021 ranking number two** after Hong Kong's 48.6% share.

PBoC's in-house RMB internationalization index based on four subindices including RMB's role as payment currency, investment currency, financing currency and reserve currency showed the increasing acceptance of RMB in the global stage.

RMB's use in cross border payment for two-way direct investments and major commodities all surged by 40% to 60% respectively yoy in 2021.

For the local currency settlement collaboration between China and Indonesia which was launched in September 2021, CNY2.77 billion has been settled in the first half of 2022. **China will continue to explore the local**

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**currency settlement mechanism with other ASEAN** countries according to the PBoC.

On data, despite rising geopolitical risk and disruption from China's dynamic zero Covid policy, China's overseas direct investment returned to pre-Covid level. China's non-financial overseas direct investment in the first eight months accelerated to 7.2% yoy from 4.4% yoy in the first seven months.

RMB's rapid movement last week was not so awkward given dollar index's surge to 113 level. Thanks to GBP's meltdown and Japan's intervention in Yen, RMB finally took a break from the global media's excessive attention.

Nevertheless, **the USDCNY's fall closer to the 2% daily trading limit last Friday will inject fresh enthusiasm for market to watch out for the daily fixing this week.** It is unlikely to be any surprise for the USDCNY to be fixed above 7 this week, which will allow the USDCNY to track the weakness of global major currencies.

**Hong Kong** scrapped the mandatory hotel quarantine requirement for overseas arrival starting from 26 September, a long-awaited move attempting to boost inbound tourism and revive the local economy. Despite the eased border measures, Hong Kong still imposed movement restrictions for arriving visitors. Many suspected that the new arrangement would only help outbound tourism but would do little to the inbound tourism.

In contrast to the eased border measures in Hong Kong, there were currently no plans to lift travel restrictions to Macau applicable to people from overseas or travelling from Hong Kong (7 days of hotel quarantine and 3 days of health monitoring), according to Macau's official. Yet, package tours for Mainland residents to visit Macau would be resumed soon.

**A number of major banks announced to raise their best lending rates (main lending rate in Hong Kong) by 12.5bps following the Fed's 75bps hike, the first time since 2018.** The pace of prime rate hike was moderate given that Hong Kong dollar liquidity remained ample, and loan demand stayed weak amid the sluggish economy. We expect further prime rate hikes (25-50bps) in the coming two quarters.

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Key Events and Market Talk	
Facts	OCBC Opinions
<ul style="list-style-type: none"> <li>China Center for Disease Control and Prevention (CDC) said in the latest weekly report that a well-timed second booster shot is necessary for a safe, long-time exit from the pandemic.</li> <li>China's central bank published its 2021 RMB Internationalization report on 23 Sep.</li> </ul>	<ul style="list-style-type: none"> <li>According to onshore news report that China has started clinical research on the second booster shot. The article said vaccination is the key to return to normal life. In addition, China also promoted vaccination campaign to 10% who have yet to be fully vaccinated.</li> <li>PBoC unveiled its in-house RMB internationalization index based on four subindex including RMB's role as payment currency, investment currency, financing currency and reserve currency. The index showed the increasing acceptance of RMB in the global stage in the past few years. Total RMB denominated cross border payment and receipt rose by 31.3% yoy in 2021 and 15.7% yoy in the first half of 2022. Singapore accounted for 11.3% of total RMB denominated cross border payment and receipt in 2021 ranking number two after Hong Kong's 48.6% share. <ul style="list-style-type: none"> <li>The usage of RMB in direct investment settlement further surged with total RMB denominated cross border payment and receipt for FDI and ODI rose by 50.7% yoy and 56.2% yoy respectively.</li> <li>In addition, total RMB denominated cross border payment and receipt for major commodity such as crude oil, iron ore, copper and soy bean also increased by 42.8% yoy in 2021.</li> <li>For the local currency settlement collaboration between China and Indonesia which was launched in September 2021, CNY2.77 billion has settled in the first half of 2022. China will continue to explore the local currency settlement mechanism with other ASEAN countries according to the PBoC.</li> </ul> </li> </ul>
<ul style="list-style-type: none"> <li>Hong Kong scrapped the mandatory hotel quarantine requirement for overseas arrival starting from 26 September, a long-awaited move attempting to boost inbound tourism and revive the local economy.</li> </ul>	<ul style="list-style-type: none"> <li>Starting from 26 September, Hong Kong would switch to a "0+3" model, imposing only movement restrictions for incoming travellers during the first three days after arrival. Travellers would be banned from visiting bar and dining in the restaurant during three-day health surveillance period. In addition, all incoming visitors will only be required to take a rapid test before departure, PCR test upon arrival and three more PCR tests for every other day.</li> <li>Despite the eased border measures, Hong Kong still imposed movement restrictions for arriving visitors. Meanwhile, the "7+3" quarantine requirement for entry into the Mainland also stayed put, keeping Mainland tourists from visiting Hong Kong. Hence many suspected that the new arrangement would only help outbound tourism but would do little to the inbound tourism.</li> </ul>
<ul style="list-style-type: none"> <li>A number of major banks announced to raise their best lending rates (main lending rate in Hong Kong) by 12.5bps following the Fed's 75bps hike, the first time since 2018. The pace of prime rate hike was moderate given that Hong Kong dollar liquidity remained ample, and loan demand stayed weak amid the sluggish economy.</li> </ul>	<ul style="list-style-type: none"> <li>While HIBORs rose to multi-year high, the prime rates (benchmark rates for mortgage loans and other customer loans in Hong Kong) have only been raised by 12.5 bps so far, standing in stark contrast to the soaring interbank rates. Currently, the commercial banks are resisting pressure to hike the prime rates by a larger magnitude due to still-ample Hong Kong dollar liquidity (combining aggregate balance and exchange fund bills) and weak economic momentum. Yet, as HKD rates rises further alongside the soaring LIBORs,</li> </ul>

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	<p>commercial banks will have no choice but lift the prime rate. We expect further prime rate hikes (25bps to 50 bps) in the coming two quarters.</p> <ul style="list-style-type: none"> <li>The higher borrowing cost will likely pile further weight on the growth outlook, given that the economy is still struggling to heal from the aftermaths of Covid fallout and the deteriorating external headwinds. We expect Hong Kong economy to see a mild recession this year, while the property market in Hong Kong will undergo a 6-8% price correction.</li> </ul>
<b>Key Economic News</b>	
<b>Facts</b>	<b>OCBC Opinions</b>
<ul style="list-style-type: none"> <li>China's non-financial overseas direct investment in the first eight months accelerated to 7.2% yoy from 4.4% yoy in the first seven months.</li> <li>Further broad-based improvement was seen in Hong Kong's labour market. Unemployment and underemployment rate declined to 4.1% and 2.0% respectively in June-August 2022, both down by 0.2 percentage point compared to May-July 2022. Other than the import/export trade and wholesale sector, all the major economic sectors saw lower unemployment and underemployment rates.</li> </ul>	<ul style="list-style-type: none"> <li>Total overseas direct investment returned to pre-Covid level.</li> </ul>
<ul style="list-style-type: none"> <li>Hong Kong's price pressure stay tamed in August, with the year-on-year change of headline composite CPI staying at 1.9%, same as that in July. The year-on-year increases in prices of food as well as clothing and footwear, though still notable, showed some moderation. The underlying inflation rate (netting out the effects of all government's one-off relief measures) fell to 1.8% in August, as compared to that of 1.9% in July.</li> </ul>	<ul style="list-style-type: none"> <li>Analyze by component, the cost of electricity, gas and water recorded the fastest pace of year-on-year increase since December 2021, at 15.2%. Meanwhile, prices of clothing and footwear, and food rose by a slower pace of 5.9% yoy and 4.7% yoy respectively. Added to that, prices of alcoholic drinks and tobacco, durable goods and miscellaneous services also saw moderated growth in August.</li> <li>We continue to expect the inflation to stay moderate in the second half of 2022, with upside capped by the falling rental cost (-0.3% yoy).</li> </ul>
<ul style="list-style-type: none"> <li>Macau's visitor arrivals fell further by 19.0% yoy in August (-98.8% yoy in July; -28.0% in June), due to ongoing antivirus measures.</li> <li>Macau: Package tours for Mainland residents to visit Macau would be resumed soon according to the Chief Executive of Macau.</li> </ul>	<ul style="list-style-type: none"> <li>The number of visitor arrivals rebounded by 3295.8% in August compared to the prior month as the lockdown measures were lifted. On year-to-year basis, the number of same-day and overnight visitors fell by 40.4% and 17.5% respectively in August.</li> <li>Chief Executive of Macau Ho Iat Seng said Mainland's authorities had agreed to resume electronic issuance of visas allowing residents of mainland China to visit Macau on an individual capacity, including visas issued under the Individual Visit Scheme (IVS). We are of the view that such resumption could be a catalyst for boosting tourist arrivals to Macau in coming months, though its impact will be restricted by the antivirus measures.</li> <li>In contrast to the eased border measures in Hong Kong, there were currently no plans to lift travel restrictions to Macau applicable to people from overseas or travelling from Hong Kong (7 days of hotel quarantine and 3 days of health</li> </ul>

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monitoring), according to Macau's official.

### RMB

#### Facts

- Both USDCNY and USDCNH ended the week above 7.10 last week due to broad dollar rally.

#### OCBC Opinions

- RMB's rapid movement last week was not so awkward given dollar index's surge to 113 level. Thanks to GBP's meltdown and Japan's intervention in Yen, RMB finally took a break from the global media's excessive attention.
- Nevertheless, the USDCNY's fall closer to the 2% daily trading limit last Friday will inject fresh enthusiasm for market to watch out for the daily fixing this week. It is unlikely to be any surprise for the USDCNY to be fixed above 7 this week, which will allow the USDCNY to track the weakness of global major currencies.

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