

Greater China – Week in Review

31 January 2022

Highlights: Preparing for the Fed tightening cycle

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China's market sentiment remained fragile in the last week of the Year of Ox despite accommodative monetary policy setting with PBoC lowered its 14-day reverse repo by 10bps as expected. Although Chinese capital markets have a relative low correlation with global markets, investors switched to a more cautious approach in anticipation of rising volatility amid the faster than expected Fed normalization cycle.

On policy front, China's currency regulator and central bank also started to prepare for better regulation of cross border capital flows amid the upcoming Fed tightening cycle. China announced to add banks' overseas lending into macro prudential framework with both cross border RMB loan and foreign currency loan will be regulated under the same framework.

The clear clarification of cross border loans under macro prudential framework is likely to expand the scope of the overseas RMB loans, which will help facilitate RMB internationalization. In addition, the inclusion of overseas loan into the macro prudential framework ahead of the Fed tightening cycle will also help keep the capital outflow risk in check.

China is likely to set its growth target this year above 5% based on the targets set by each province recently, higher than IMF's forecast of 4.8%. China's largest province in economic size Guangdong province set the growth target at around 5.5% while the second and third largest provinces Jiangsu and Shandong provinces set the growth floor at 5.5% in 2022.

On economic data, China's manufacturing PMI softened slightly in January to 50.1 as both production and new orders weakened. Nevertheless, business expectation rebounded to 57.5 from 54.3 indicating still positive outlook.

China's research and development expenditure rose by 14.2% yoy in 2021 to CNY2.79 trillion. The spending on R&D hit a new high of 2.44% of GDP, up 0.03%.

On regulation, China's cyberspace regulator hosted a meeting with other regulators including NDRC, Ministry of Industry and Information Technology and State Administration for Market Regulation to promote healthy and sustainable development for internet enterprises.

The head of cyberspace regulation reckoned the contribution from internet enterprises to facilitate China's dual circulation strategy as well as being the backbone to support China's high-quality growth. This shows that **China will strike a balance between regulation of tech companies and development of tech sectors.**

Hong Kong's GDP slightly missed market expectations and expanded by 4.8% yoy in 4Q 2021, down from 5.5% yoy growth in 3Q. On seasonally adjusted basis, GDP rose marginally by 0.2% qoq, down from 0.6% in 3Q. For 2021 as a whole, the economy rebounded sharply by 6.4% yoy, yet it was still 2% below that in 2018. We expect the pace of growth to slow down notably to 2.7% yoy in 2022, taking into account the worsened local epidemic situation, delayed border reopening and beginning of Fed's tightening cycle. In addition, the heightened volatility in capital market may have an adverse impact on the real economy. As the balance of risks

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facing Hong Kong's economy are tilted to the downside, we expect to see more relief measures rolled out by the government to support the local economy.

In Macau, the Legislative Assembly passed the first reading of the Gaming law, paving way for the open tendering of gaming license. Looking ahead, we should see little surprise regarding the amendments and the bill will be passed in the Legislative Assembly with little resistance. On the other hand, Macau's regulatory crackdown on junket continued as the chairman of the second largest junket operator was arrested in the weekend, reminding us that overhaul on gaming sector was far from over. On that note, the total number of junkets approved by the Gaming Inspection and Coordination Bureau almost halved over the past year, as the authority reined in these gaming promoters and casino operators ceased collaboration with the later. We expect Macau's weak gaming sector will continue to pose drag on Macau's economic recovery in the near term.

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Key Events and Market Talk	
Facts	OCBC Opinions
<ul style="list-style-type: none"> All of China's provinces and municipal cities except Tianjin have set the growth target for 2022. 	<ul style="list-style-type: none"> Beijing reported the lowest growth target for this year at 5%. China's largest province in economic size Guangdong province set the growth target at around 5.5% while the second and third largest provinces Jiangsu and Shandong provinces set the growth floor at 5.5% in 2022. The recent provincial growth target shows that China is likely to set its national growth target above 5% for 2022, higher than IMF's forecast of 4.8%.
<ul style="list-style-type: none"> China's cyberspace regulator hosted a meeting with other regulators including NDRC, Ministry of Industry and Information Technology and State Administration for Market Regulation to promote healthy and sustainable development for internet enterprises. 	<ul style="list-style-type: none"> The head of cyberspace regulation reckoned the contribution from internet enterprises to facilitate China's dual circulation strategy as well as being the backbone to support China's high-quality growth. China's cyberspace regulator will work with respective departments to safeguard the rights and interests of internet enterprises.
<ul style="list-style-type: none"> China's central bank and currency regulator unveiled new framework to regulate overseas lending by Chinese banks. 	<ul style="list-style-type: none"> Both cross border RMB loan and foreign currency loan will be regulated under the same framework. In addition, banks' overseas lending will be added into the macro prudential framework. The purpose of requirements of the utilization of overseas loans will be clarified. The clear clarification of cross border loans under macro prudential framework is likely to expand the scope of the overseas RMB loans, which will help facilitate RMB internationalization. In addition, the inclusion of overseas loan into the macro prudential framework ahead of the Fed tightening cycle will also help keep the capital outflow risk in check.
<ul style="list-style-type: none"> Hong Kong: In response to the record-breaking daily COVID-19 caseload in Hong Kong, the government announced to extend the current social distancing measures by two more weeks till 17 February. 	<ul style="list-style-type: none"> On top of that, vaccine mandate would be extended to more premises. Despite its hardline approach to containing the virus, the government cannot completely overlook the economic costs that go hand in hand with the social distancing measures. To soothe business community's frustration toward the city's strict quarantine rules, the government cut quarantine requirement for incoming travelers from 21 days to 14 days starting next week. Reportedly, some corporates were considering relocation of staffs to Singapore as there is "no end in sight" for the strict quarantine requirement and social distancing measures. The authority also set up a target for the vaccination rate, at 90%, as a prerequisite for re-adjusting the current social distancing measures. It is expected that the target can be reached at around mid-March, based on the current pace of vaccination. Hence, the economic performance in the first quarter will likely be rather sluggish given that the movement controls are expected to remain most of the time. Therefore, we revised downward our GDP forecast for 2022 from 3.0% to 2.7%.
<ul style="list-style-type: none"> Macau: The Legislative Assembly of Macau passed the first reading of the amendment to the Gaming law, paving way for the open tendering of gaming license. 	<ul style="list-style-type: none"> All but one legislators voted in favour of the amendment, and now the draft bill is expected to be sent to the Standing Committee for consideration. Looking ahead, we should see little surprise in the periods ahead regarding the amendments and the bill will be passed in the Legislative Assembly with

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	little resistance. On the other hand, Macau's regulatory crackdown on junket continued as the chairman of the second largest junket operator was arrested in the weekend, reminding us that overhaul on gaming sector was far from over.
Key Economic News	
Facts	OCBC Opinions
<ul style="list-style-type: none"> China's official PMI eased again in January to 50.1 from 50.3 in December. 	<ul style="list-style-type: none"> Both production and new orders softened in January although new export orders improved slightly to 48.4 from 48.1. Raw material prices rebounded to 56.4 from 48.1, a sign of rising costs for producers, but it is still below the recent high of 72.1 in October 2021. On positive note, business expectation rebounded to 57.5 from 54.3 indicating still positive outlook.
<ul style="list-style-type: none"> Hong Kong: According to the preliminary reading, Hong Kong's GDP slightly missed market expectations and expanded by 4.8% yoy in 4Q 2021, down from 5.5% yoy growth in 3Q. On seasonally adjusted basis, GDP rose marginally by 0.2% qoq, down from 0.6% in 3Q. 	<ul style="list-style-type: none"> Amid solid growth in domestic consumption and external demand, private consumption expenditure and exports of goods registered the most notable year-on-year growth of 6.0% and 13.3% respectively, albeit at moderated paces as compared to the previous quarter (+6.8% yoy and +14.2% yoy in 3Q respectively). Meanwhile, similar to other major components, government consumption expenditure (+4.1% yoy in 4Q; +5.0% yoy in 3Q) and gross domestic fixed capital formation (+0.1% yoy in 4Q; +13.1% in 3Q) also saw slowdown in the pace of expansion. It appeared that the slowing momentum is a broad-based phenomenon. For 2021 as a whole, the economy rebounded sharply by 6.4%, yet it was still 2% below that in 2018. We expect the pace of growth to slow down notably to 2.7% in 2022, taking into account the worsened local epidemic situation, delayed border reopening and beginning of Fed's tightening cycle. In addition, the heightened volatility in capital market may have an adverse impact on the real economy. As the balance of risks facing Hong Kong's economy are tilted to the downside, we expect to see more relief measures rolled out by the government to support the local economy.
<ul style="list-style-type: none"> Hong Kong: Values of merchandise exports and imports in Hong Kong rose further by 24.8% yoy and 19.3% yoy respectively in December, both beating market expectation. For 2021 as a whole, the value of merchandise exports and imports registered solid year-on-year growth of 26.3% and 24.3% respectively, thanks to the global economic recovery and surging goods demand. The total merchandise trade value in 2021 reached HK\$10.3 trillion, 15.6% higher than the record in 2018. 	<ul style="list-style-type: none"> Zooming in, with the exception of Japan, exports to and imports from all other major trading partners continued to see double-digit growth. In particular, value of exports to Asia grew by 24.5% yoy. Going forward, the outlook for Hong Kong's merchandise trade should remain favourable amid sustained global economic growth, albeit at a slower pace. We are of the view that a high single digit year-on-year growth in exports can be achieved in 2022, taking into consideration the high base effect, and downside risks posted by the Omicron variant, supply-chain bottleneck and Fed's tightening cycle.
<ul style="list-style-type: none"> Macau: The total number of junkets approved by the Gaming Inspection and Coordination Bureau almost halved over the past year, as the authority reined in these gaming promoters and casino operators ceased collaboration with the later. 	<ul style="list-style-type: none"> According to the authority, the number of junkets fell from 85 to 46 this year in January. With less junkets and more restrictions on their work under the amended gaming law, VIP's contribution to the gross gaming revenue is set to fall further (32.8% in 2021). We expect Macau's weak gaming sector will continue to pose drag on Macau's economic recovery in the near term.

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RMB	
Facts	OCBC Opinions
<ul style="list-style-type: none"> The USDCNY continued to consolidate below 6.4. 	<ul style="list-style-type: none"> The USDCNY returned to 6.35-6.4 range on the back of broad dollar rally after testing 6.3 in the early part of the week. The pair is likely to be the function of broad dollar movement post Chinese New Year holiday.

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