Greater China – Week in Review

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Highlights: Multiple policy pivots

Tommy Xie
Xied@ocbc.com

Cindy Keung
cindykeung@ocbcwh.com

China officially reopened its borders from Sunday, marking the first day of downgraded management of Covid-19 to class B from class A. Activities in China have recovered notably. Pictures about packed beaches in Sanya, Hainan Island has been well circulated in the social media. The daily high frequency data tracking the traffic flow also showed the pattern of first in first out. The congestion level in cities such as Beijing and Chengdu which were first hit by the Covid outbreak have recovered fully.

China's CDC said in the latest press conference that so far no internationally unreported strains have been monitored in the latest wave of the outbreak in China.

The policy tone remains supportive in the beginning of 2023. China's Finance Minister Liu Kun said China will step up its proactive fiscal policy this year via the expansion of fiscal expenditure, promotion of special bond investment and more transfer payments from the central to local governments.

Elsewhere, China's central bank reiterated to use various monetary policy tools to maintain reasonably ample liquidity in 2023. China will continue to match the growth in M2 and social financing with the pace of nominal GDP growth. PBoC also mentioned explicitly that it will take more measures to lower financing costs, raising expectations on more interest rate cuts and RRR cuts.

On property, more measures were rolled out last week. China announced a new credit policy to promote housing sales. Banks are allowed to lower the mortgage rates for first time home buyers in cities where home prices drop for three consecutive months. In other words, the new floating housing loan interest rate will be linked to housing prices and mortgage rate will play a role of counter cyclical factors. PBoC also said it will support the stable and healthy development of the property market. Meanwhile, it was also reported by some media that China may roll back the "three red lines".

RMB rallied strongly in the first week of 2023 with the USDCNH ended below 6.85. China's reopening together with multiple policy pivots has led to optimism on stronger growth outlook, which is supportive of RMB strength. On flow wise, potential increased in exporter RMB conversion may continue to support RMB heading into the Chinese New Year. Nevertheless, we think RMB appreciation may not be straight forward as China's reopening may widen the service trade deficit as well as narrow the goods trade surplus due to the rising demand for foreign goods.

China's reopening and policy pivots are likely to continue to dominate the global headline. The spill over from China's reopening to the regional economies will be mainly from three channels including goods trade, service trade and commodity demand. Given tourist receipts from China in Thailand accounted for more than 3% of Thailand's GDP in 2019, highest in Southeast Asia, we expect Thailand to be the main beneficiary of China's reopening.

Hong Kong has leapt forward to normalcy by resuming quarantine free travels with the Mainland China, after three years of Covid disruptions. The Hong Kong government announced phased reopening plan with Mainland last Thursday, setting a daily traveller quota of 60,000 (50,000 for land checkpoints and 10,000 for rest of the checkpoints). Taking the figures in 2019 as reference, the total visitor arrivals from the mainland was around 44 million (119K arrivals per day). The daily quota was set at approximately 50% of the pre-pandemic level. Around 8000 travellers from the Mainland visited Hong Kong (not including the airport arrivals) on 8th January.

Retail sales in November softened again as the effect of consumption voucher wanes. The value of total retail sales fell by 4.2% YoY in November, surprising market on the downside. Domestic demand stayed generally weak amid the challenging macro setting and tight financial conditions, yet we expect retail sales performance to improve in periods ahead given the relaxation of social distancing measures and reopening of border. Hong Kong's economic activities continued to contract, though at a slower pace. Hong Kong's PMI in December rose to 49.6, up from 48.7 in November. Surveyed business outlook has improved due to the reopening optimism.

Year-on-year decline in Macau's gross gaming revenue widened somewhat to 56.3% in December, due to the surge in Covid cases in Macau and the Mainland. In 2022, Macau's total gaming revenue fell by 51.4% YoY. Looking forward, the reopening of China in terms of outbound travel for citizens will be a key growth factor for Macau' gaming sector in 2023. According to the Chinese authority, limits on passenger capacity for flights between Macau and mainland cities are to be eased on a gradual basis. Meanwhile, Macau scrapped most of the travel restrictions for travellers from the mainland and Hong Kong starting from 8 January. We expect to see solid rebound in total visitors from Hong Kong, as well as increase in gaming revenue over the low as Chinese New Year approaches.

Key Events and Market Talk	
Facts	**OCBC Opinions**
▪ China's Finance Minister Liu Kun laid out the priorities for China's fiscal policy in 2023.	▪ China will step up its proactive fiscal policy this year via the expansion of fiscal expenditure, promotion of special bond investment and more transfer payments from the central to local governments. ▪ In addition, China will also optimize its fee reduction and tax cut to support companies as part of package to restore market confidence. ▪ Nevertheless, the ministry will also focus on holding the bottom line of preventing systemic risk this year. China will continue to standardize the management of local government financing platform which includes prohibiting the establishment of new financing platform companies, standardizing financing information disclosure and prohibit financing platform from leveraging local government credit etc. In addition, China will also break away from expectation on implicit guarantee of debt from financing platform. Overall, China will redefine the boundaries between the government and enterprises.
▪ China announced a new credit policy to promote housing sales.	▪ Banks are allowed to lower the mortgage rates for first time home buyers in cities where home prices drop for three consecutive months. In other words, the new floating housing loan interest rate will be linked to housing prices and mortgage rate will play a role of counter cyclical factors. ▪ In addition, China's Minister of Housing and Urban Rural Development said he is confident in seeing the real estate market stabilize and recover in 2023 and vowed to make further efforts to resolve the risk.
▪ At its annual work conference, China's central bank reiterated to use various monetary policy tools to maintain reasonably ample liquidity in 2023.	▪ China will continue to match the growth in M2 and social financing with the pace of nominal GDP growth. PBoC also mentioned explicitly that it will take more measures to lower financing costs, raising expectations on more interest rate cuts and RRR cuts. Meanwhile, PBoC also said it will support the stable and healthy development of the property market.
▪ Hong Kong has leapt forward to normalcy by resuming quarantine free travels with the Mainland China, after three years of Covid disruptions. The Hong Kong government announced phased reopening plan with Mainland last Thursday, setting a daily traveller quota of 60,000 (50,000 for land checkpoints and 10,000 for rest of the checkpoints).	▪ Starting from 8 January, Hong Kong will resume quarantine-free travels with the Mainland with a daily traveller quota of 60,000 and reopen seven cross border checkpoints (3 fully operational before 8 January). Meanwhile, ferry services between Hong Kong and Macau, as well as high speed rail services between Hong Kong and Mainland will also be resumed. Nonetheless, both inbound and outbound travellers are required to present negative PCR test result taken within 48 hours to departure and make online reservation ahead. ▪ Taking the figures in 2019 as reference, the total visitor arrivals from the mainland was around 44 million (119K arrivals per day). The daily quota was set at approximately 50% of the pre-pandemic level. Around 8000 travellers from the Mainland visited Hong Kong (not including the airport arrivals) on 8th January. The figure is still low given that the Chinese authority had just started to resume visa issuance. We expect to see surge in arrival figures in coming weeks.
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Key Economic News	
Facts	**OCBC Opinions**
▪ Hong Kong: Retail sales in November softened again as the effect of consumption voucher wanes. The value of total retail sales fell by 4.2% YoY in November, surprising market on the downside. On volume term, total retail sales dropped by 5.3% YoY during the month. ▪ The private sector in Hong Kong continued to contract, albeit at a slower pace. Hong Kong's PMI in December rose to 49.6, up from 48.7 in November. Surveyed business outlook has improved due to the reopening optimism.	▪ Domestic demand stayed generally weak amid the challenging macro setting and tight financial conditions, yet we expect retail sales performance to improve in periods ahead given the relaxation of social distancing measures and reopening of border. ▪ Hong Kong's economic activities continued to contract, though at a slower pace. Business activity rose for the first time in four months, supported by the further loosening of social distancing measures. Demand remained generally weak, which led to the paring back of buying activity and inventory holdings. Business confidence improved to eight-month high. Surveyed firms stayed optimistic on the back of border reopening with mainland China and lifting of most social distancing measures.
▪ Macau: Year-on-year decline in Macau's gross gaming revenue widened somewhat to 56.3% in December, due to the surge in Covid cases in Macau and the Mainland. On month-to-month basis, the gross gaming revenue rose by 16.1%. In 2022, Macau's total gaming revenue fell by 51.4% YoY.	▪ The reopening of China in terms of outbound travel for citizens will be a key growth factor for Macau' gaming sector in 2023. According to the Chinese authority, limits on passenger capacity for flights between Macau and mainland cities are to be eased on a gradual basis. Meanwhile, Macau scrapped most of the travel restrictions for travellers from the mainland and Hong Kong starting from 8 January. ▪ Ferry services between Macau and Hong Kong have been resumed, while more bus services are now available via the Hong Kong-Zhuhai-Macau Bridge. We expect to see solid rebound in total visitors from Hong Kong, as well as rebound in gaming revenue as Chinese New Year approaches.

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▪ RMB rallied strongly in the first week of 2023 with the USDCNH ended below 6.85.	▪ China's reopening together with multiple policy pivots has led to optimism on stronger growth outlook, which is supportive of RMB strength. On flow wise, potential increased in exporter RMB conversion may continue to support RMB heading into the Chinese New Year. Nevertheless, we think RMB appreciation may not be straight forward as China's reopening may widen the service trade deficit as well as narrow the goods trade surplus due to the rising demand for foreign goods.

Treasury Research & Strategy

OCBC Greater China Research

Tommy Xie
Xied@ocbc.com

Herbert Wong
herberthtwong@ocbcwh.com