

## Greater China — Week in Review

3 January 2024

### Highlights: More monetary policy fine-tunes

The latest December official manufacturing PMI reinforced the November data which reveals a pronounced imbalance between supply and demand within China's economy.

The decline reflected simultaneous weakening in both demand and supply. This contraction is evidenced by a decrease in production, which fell to 50.2, a drop of 0.5 points. Similarly, there was a notable decline in new orders and new export orders, which decreased by 0.7 and 0.5 points respectively, settling at 48.7 for new orders and 45.8 for new export orders. This decline in new orders is particularly concerning, as it underscores the persistent issue of weak demand in the market.

Recent data shows that China has reactivated its pledged supplementary lending (PSL) tool in December, with an increase in outstanding amounts by CNY350 billion.

The reactivation of the Pledged Supplementary Lending (PSL) program by China's central bank represents a strategic move towards targeted liquidity support for specific sectors. Historically, the expansion of the central bank's balance sheet through PSL has been an instrumental tool, notably in revitalizing China's property market back in 2015.

The revival of the PSL program signifies that, in tandem with fiscal measures, monetary policy is now being more finely tuned at the micro-level. However, this development introduces a new concern: the potential impact of PSL on the likelihood of other monetary policy adjustments, specifically regarding the reserve requirement ratio and outright interest rate cuts.

There has been a growing expectation of a reduction in the Loan Prime Rate (LPR), particularly following the decision by major Chinese banks to cut deposit rates in late December. This move was largely aimed at salvaging their narrowing interest margins. While there is market hope for a dual policy decision — a combination of both interest rate cuts and balance sheet expansion by the PBoC — the reality might present a choice between the two. In other words, the deployment of balance sheet expansion via PSL could potentially limit the scope for an interest rate cut. Such an outcome might not bode well for the market sentiment.

As a result, the market is poised to closely monitor the upcoming LPR decision this month. The direction taken by the PBoC in this regard will be crucial in shaping the near-term trajectory of China's monetary policy and its broader economic implications.

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As we mentioned in our China insights report dated on 29 December, the main challenge for China's economy in 2024 may be whether policies can mitigate deflation risks. This question involves both policy intent and policy capability. Currently, policy intent is not entirely clear. While China has already loosened monetary and fiscal policies throughout the year, real interest rates in China have increased, dampening market sentiment.

In Hong Kong, we continue to see a diverging trend between housing rent and price, suggesting that housing demand was redirected to the rental market. On month-on-month basis, the rental index increased by 0.6% in November 2023, marking it the tenth consecutive month of rally. On the other hand, the residential property price index fell by 2.0% in November over the previous month. Comparing with the level at end-2022, housing price fell by 5.6% in November, while rental index rose by 6.4%.

Trading activities stayed subdued, with the number of residential property transactions hovering at a low level of 2,554 during the month. Despite the dented sentiment, further sharp correction in the housing market from this point onward is still not our baseline scenario, given the increased pool of end-users and possible downward trajectory of HKD rates in 2024.

Macau's casino gross gaming revenue closed the year 2023 with impressive growth, reaching 64.1% of the pre-Covid level, slightly below our forecast of 65%. In December, the figure surprised the market to the upside, surging by 15.7% MoM to MOP18.567 billion, adding to the full year sum of 183.059 billion. Comparing with the same period in 2019, the gross gaming revenue in December was down only by 18.7%.

Macau's gaming sector enjoyed brisk recovery since reopening, despite weaker-than-expected growth in China. In view of that, our call has been that gross gaming revenue will return to 65% of the pre-Covid level in 2023, and 100% in 2024. The recovery so far was mostly led by mass and premium mass segments, while VIP segment remained under pressure amid junket crackdown. We expect the mass and premium mass market to continue to grow, though at a slower pace, heading into 2024.

Key Events and Market Talk	
Facts	OCBC Opinions
<ul style="list-style-type: none"> <li>Recent data shows that China has reactivated its pledged supplementary lending (PSL) tool in December, with an increase in outstanding amounts by CNY350 billion.</li> </ul>	<ul style="list-style-type: none"> <li>Similar to the ECB's TLTRO, the PSL is a critical tool for stimulating the economy, particularly in the context of the 2015 property market situation. However, this could exert pressure on the RMB.</li> <li>The reactivation of the Pledged Supplementary Lending (PSL) program by China's central bank represents a strategic move towards targeted liquidity support for specific sectors. Historically, the expansion of the central bank's balance sheet through PSL has been an instrumental tool, notably in revitalizing China's property market back in 2015.</li> <li>The revival of the PSL program signifies that, in tandem with fiscal measures, monetary policy is now being more finely tuned at the micro-level. However, this development introduces a new concern: the potential impact of PSL on the likelihood of other monetary policy adjustments, specifically regarding the reserve requirement ratio and outright interest rate cuts.</li> <li>There has been a growing expectation of a reduction in the Loan Prime Rate (LPR), particularly following the decision by major Chinese banks to cut deposit rates in late December. This move was largely aimed at salvaging their narrowing interest margins. While there is market anticipation for a dual policy decision — a combination of both interest rate cuts and balance sheet expansion by the People's Bank of China (PBoC) — the reality might present a choice between the two. In other words, the deployment of balance sheet expansion via PSL could potentially limit the scope for an interest rate cut. Such an outcome might not bode well for the rates market.</li> <li>As a result, the market is poised to closely monitor the upcoming LPR decision this month. The direction taken by the PBoC in this regard will be crucial in shaping the near-term trajectory of China's monetary policy and its broader economic implications.</li> </ul>

## Key Economic News

Facts	OCBC Opinions
<ul style="list-style-type: none"> <li>In December, China's manufacturing Purchasing Managers' Index (PMI) experienced a further moderation, declining to 49 from November's 49.4,</li> </ul>	<ul style="list-style-type: none"> <li>The decline reflected simultaneous weakening in both demand and supply. This contraction is evidenced by a decrease in production, which fell to 50.2, a drop of 0.5 points. Similarly, there was a notable decline in new orders and new export orders, which decreased by 0.7 and 0.5 points respectively, settling at 48.7 for new orders and 45.8 for new export orders. This decline in new orders is particularly concerning, as it underscores the persistent issue of weak demand in the market.</li> <li>Despite these challenges, there was a marginal improvement in business expectations, rising slightly to 55.9 from 55.8. This indicates a cautiously optimistic outlook among businesses, albeit in the face of declining order volumes.</li> <li>A significant factor affecting the manufacturing sector in December was the rebound in the raw material purchase price index, which increased to 51.5 from 50.7. This increase is largely attributed to the spike in commodity prices, triggered by disruptions in shipping routes in the Red Sea. Concurrently, the output price index softened to 47.7, down by 0.5 points, further reflecting the impact of weak demand. This widening gap between raw material input prices and output prices poses a continued challenge, potentially exerting pressure on manufacturers' profit margins.</li> <li>In contrast to the manufacturing sector, the non-manufacturing PMI showed a slight improvement, inching up to 50.4 from 50.2. This rebound was primarily driven by the construction PMI, which rose to 56.9 from 55, indicating that infrastructure investment remains a key supportive factor for this sector. This divergence between manufacturing and non-manufacturing sectors highlights the nuanced and complex nature of China's current economic landscape.</li> </ul>
<ul style="list-style-type: none"> <li>Hong Kong: We continue to see a diverging trend between housing rent and price, suggesting that housing demand was redirected to the rental market. On month-on-month basis, the rental index increased by 0.6% in November 2023, marking it the tenth consecutive month of rally. On the other hand, the residential property price index fell by 2.0% in November over the previous month. Comparing with the level at end-2022, housing price fell by 5.6% in November, while rental index rose by 6.4%. Trading activities stayed subdued, with the number of residential property transactions hovering at a low level of 2,554 during the month.</li> </ul>	<ul style="list-style-type: none"> <li>Analyze by flat size, the mass-market and medium-sized properties (Class A, B and C; below saleable area of 100 square meter) and large-sized properties (Class D and E; saleable area of 100 square meter or above) dropped by 2.0% and 1.9% respectively over the preceding month in November. As for rental index, they increased further by 0.7% and 1.0% respectively month-on-month in November.</li> <li>Despite the dented sentiment, further sharp correction in the housing market from this point onward is still not our baseline scenario, given the increased pool of end-users and possible downward trajectory of HKD rates in 2024. Historically, the bottoming out of housing market did not come around until approximately six months after the last rate hike, which coincidentally was close to the timing for Fed's first rate cut. The median annualized return of the housing market in the 12 and 24 months following the last Fed rate hike was at 1.9% and 12% respectively. As we believe the July Fed hike was probably the last hike in this round, if history is of any guidance, Hong Kong's property market should see some stabilisation in the first half next year.</li> </ul>

<ul style="list-style-type: none"> <li>▪ Hong Kong: In November, total deposits rose 1.7% over the preceding month, while that of total loans and advances fell by 0.5% amid ongoing correction in property market and challenging macroeconomic backdrop. At end-November, Hong Kong dollar loan-to-deposit ratio fell to 85.4%, as HKD deposits (+1.7% mtm) rose while that of HKD loans fell (-0.3% mtm).</li> </ul>	<ul style="list-style-type: none"> <li>▪ Overall loan demand stayed generally weak, in the face of sluggish economic growth. On month-to-month basis, loans for use in Hong Kong (including trade finance) edged down by 0.1% in November, while that of loans for use outside Hong Kong decreased further by 1.5%.</li> <li>▪ For the third quarter as a whole, loans for use in Hong Kong (including trade finance) fell by an accelerated 1.9% quarter-on-quarter. Analyzed by economic use, the decrease in loans during the third quarter was mainly led by loans to building, construction, property development and investment, on the back of the property downturn.</li> </ul>
<ul style="list-style-type: none"> <li>▪ Macau's casino gross gaming revenue closed the year 2023 with impressive growth, reaching 64.1% of the pre-Covid level, slightly below our forecast of 65%. In December, the figure surprised the market to the upside, surging by 15.7% MoM to MOP18.567 billion, adding to the full year sum of 183.059 billion. Comparing with the same period in 2019, the gross gaming revenue in December was down only by 18.7%.</li> </ul>	<ul style="list-style-type: none"> <li>▪ Macau's gaming sector enjoyed brisk recovery since reopening, despite weaker-than-expected growth in China. In view of that, our call has been that gross gaming revenue will return to 65% of the pre-Covid level in 2023, and 100% in 2024. The recovery so far was mostly led by mass and premium mass segments, while VIP segment remained under pressure amid junket crackdown. We expect the mass and premium mass market to continue to grow, though at a slower pace, heading into 2024.</li> <li>▪ As the gross gaming revenue breached above the MOP180 billion threshold, casino operators will have to increase their collective non-gaming investment pledge by 20% (originally at MOP108.7 billion) during the 10-year concession period. According to the government forecast, Macau's gross gaming revenue will reach MOP216 billion in 2024. Going forward, casino concessionaires' investment on non-gaming amenities should continue to have positive spill-over effect on total tourism receipts and gaming revenue.</li> <li>▪ Separately, Macau's total visitor arrivals reached 28.23 million in 2023, according to Macau Government Tourism Office. Further recovery in inbound tourism sector should continue to underpin growth (increase in visitor arrivals more than offsetting the decline in per capita spending). Macau's economy is likely to return to the pre-Covid level in 2024, given the current trajectory.</li> </ul>



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