Highlights: China's exit from pandemic era monetary policy does not mean the shift of easing bias

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In probably the last State Council meeting chaired by Premier Li Keqiang ahead of the major Cabinet reshuffle in March, China's State Council stressed that economic growth is stabilizing and recovering. However, it also said the challenges remain with smaller companies and self-employed households still face difficulties in their operation. There were limited takeaways from the State Council meeting.

Nevertheless, in its 4Q monetary policy report, China's central bank unveiled its blueprint for monetary policy. PBoC reiterated its prudent monetary policy stance.

PBoC added in its 4Q monetary policy report that it will guide the market rate to fluctuate around the policy rate after PBoC dropped the phrase since the 2Q monetary policy report. This sent a strong signal of exiting from pandemic era monetary policy. To recall, since the second quarter of 2022, PBoC has allowed the key money market rates to trade below the policy rate due to the outbreak of Omicron. China's earlier than expected reopening justified the quick convergence between market rate and policy rate in the money market.

Although PBoC has not lowered its benchmark loan prime rate (LPR) since September 2022, China's effective funding costs to the real economy continued to decline as the percentage of loans priced below LPR increased to 38.27% as of the end of December 2022 from 30.55% in August. In 2022, the weighted average loan rate fell by 62bps to 4.14%, falling at a faster pace than 15bps decline of 1-year LPR and 35bps decline of 5-year LPR.

According to PBoC, the size of structural monetary policy tools accounted for about 15% of PBoC's balance sheet. This gives PBoC flexibility to run its monetary policy without triggering the concerns about excessive "money printing".

Overall, we don't think the end of pandemic era monetary easing means the end of China's easing bias. As mentioned by the 4Q monetary policy report, the recovery of consumption continued to face uncertainty as it remains to been whether China is able to repair the household balance sheet to convert the excessive savings to consumption.

China's government media reported last week that some of China's SOEs have just awarded the accounting services contracts to some of big four accounting firms recently refuting the recent media report that Chinese authorities have urged SOEs to phase out using the big four over data security.

To consolidate post-pandemic recovery, Hong Kong's FY2023-24 budget was moderately expansionary, with a pencilled deficit of HK$54.4 billion (1.8% of GDP; as compared to HK$139.8 billion or 4.9% of GDP previously). Supports to residents and businesses remained intact, albeit at a reduced manner as compared to the budgets in the last two years.

Recognizing domestic consumption and inbound tourism as the key economic drivers this year, the government planned a strong pipeline of events with the hope to draw crowds and entice spendings. Meanwhile, fostering high-quality development and finding the next growth engine were also high on the list of priorities.

Following talent admission schemes introduced last year, the government had once again widened its talent trawl, with the latest Capital Investment Entrant Scheme. On business front, the government introduced a new mechanism to facilitate re-domiciliation to Hong Kong, in order to counter the exodus of businesses in the past few years.

"Spicy" measures stayed, to the disappointment of stakeholders and property investors who called for removal of these demand-side management stamp duty measures after the market downturn last year. Nonetheless, the government announced to adjust the value band of stamp duties, effectively lowering the tax rate for first-time local buyers of properties valued under HK$9 million.

Hong Kong's inflation picked up in January, though still remained moderate. Year-on-year increase in headline composite CPI widened to 2.4% in January, partly due to the early arrival of Chinese New Year. Price pressures stemming from food, utilities, and clothing and footwear stayed elevated.

Hong Kong's residential property price ended the seven straight months of decline in January, rebounding from the five-year low. On month-to-month basis, property price turned to an increase of 0.6% (-1.3% month-on-month in December 2022). Rental index, however, fell further by 0.6% (-0.5% month-on-month in December 2022) in January.

Mainland and Hong Kong's reopening had proved to be a boon for Macau's inbound tourism sector. Macau's total visitor arrivals jumped to 1.4 million in January, doubling the figure recorded in January 2022. During the seven-day Chinese New Year holiday, Macau welcomed an impressive total of 451,047 travellers, nearly four times the number of visitors recorded during the new year holiday last year. Nonetheless, comparing with the pre-pandemic level in 2019, the total arrival figure was still down by 59.2%.

Key Events and Market Talk	
Facts	**OCBC Opinions**
▪ In its 4Q monetary policy report, China's central bank reiterated its prudent monetary policy stance.	▪ PBoC see the benefit of prudent monetary policy as China's CPI has remained largely stable at average 2% in the past decade thanks to the combination of targeted measures and structural monetary policy tools. ▪ Although PBoC has not lowered its benchmark loan prime rate (LPR) since September 2022, China's effective funding costs to the real economy continued to decline as the percentage of loans priced below LPR increased to 38.27% as of the end of December 2022 from 30.55% in August. In 2022, the weighted average loan rate fell by 62bps to 4.14%, falling at a faster pace than 15bps decline of 1-year LPR and 35bps decline of 5-year LPR. ▪ According to PBoC, the size of structural monetary policy tools accounted for about 15% of PBoC's balance sheet. This gives PBoC flexibility to run its monetary policy without triggering the concerns about excessive "money printing". ▪ Looking ahead, PBoC added in its 4Q monetary policy report that it will guide the market rate to fluctuate around the policy rate after PBoC dropped the phrase since the 2Q monetary policy. This sent a strong signal of exiting from pandemic era monetary policy. To recall, since the second quarter of 2022, PBoC has allowed the key money market rates to trade below the policy rate due to the outbreak of Omicron. China's earlier than expected reopening justified the quick convergence between market rate and policy rate in the money market. ▪ Nevertheless, as we shared the last week, we don't think the end of pandemic era monetary easing means the end of China's easing bias. As mentioned by the 4Q monetary policy report, the recovery of consumption continued to face uncertainty as it remains to been whether China is able to repair the household balance sheet to convert the excessive savings to consumption.
▪ China's government media reported last week that some of China's SOEs have just awarded the accounting services contracts to some of big four accounting firms recently.	▪ The report served the purpose of refuting the recent media report that Chinese authorities have urged SOEs to phase out using the big four over data security.
▪ Hong Kong: To consolidate the "catch up" growth in the post-pandemic era, the FY2023-24 budget continues to be expansionary, albeit in a moderated fashion. Total expenditure will be reduced by 6.0% to HK$761.0 billion, while the revenue is estimated to reach HK$642.2 billion. Taking into account the new stream of revenue, as well as proceeds of Government Green Bond Programme, fiscal deficit will be reduced to HK$54.4 billion (1.8% of GDP) in FY2023-24 and the fiscal reserves will decline to HK$762.9 billion by end-March 2024 (equivalent to 12 months of government expenditure).	▪ Supports to residents and businesses remained intact, albeit at a reduced manner as compared to the budget in the last two years. Specifically, consumption voucher (down to HK$5000 per individual, from that of HK$10,000 previously), salaries tax and profits tax rebate (with a ceiling of HK$6,000, down from that of HK$10,000 previously), and waivers had all been scaled back. Nonetheless, the government moved to increase the child allowance and additional child allowance from HK$120,000 to HK$130,000, in order to provide relief for parents. ▪ To spur the recovery of domestic consumption and inbound tourism, the government had walked the extra mile to make Hong Kong residents and tourists "happy". An array of events, including food fairs, carnivals, and large-scale shows, would be hosted under "Happy Hong Kong" and "Hello Hong Kong"

	campaign, enticing both locals and tourists to spend. Free air tickets and souvenir packages would also be handed out to tourists, while the locals enjoyed their consumption voucher handout. ▪ Following talent admission schemes introduced last year, the government had once again widened its talent trawl, with the latest Capital Investment Entrant Scheme. Applicants of the scheme would be required to make investment in the local asset market at a specified amount (excluding property). On business front, the government would also introduce a new mechanism to facilitate re-domiciliation to Hong Kong, in order to counter the exodus of businesses in the past few years. Meanwhile, dedicated teams and committee would continue to attract strategic enterprises. ▪ Following the correction in housing market last year, there have been calls in recent months from stakeholders and property investors to withdraw or reduce the "spicy measures" (a range of demand-side management and macroprudential measures introduced by the Government throughout the past decade). While "spicy" measures stayed to the disappointment of many, the government also announced to adjust the value band of stamp duties, effectively lowering the tax rate for first-time local buyers of properties valued under HK$9 million. ▪ In FY2023-24, the government proposed to raise duties on tobacco products and soccer betting duty to gap the shortfall in tax revenue. Despite Hong Kong government's effort in exploring other streams of tax revenue over the years, much needs to be done on broadening our tax base and ensuring the progressivity of the tax regime. On that note, the Financial Secretary leaves plenty of room for speculating further increase in Hong Kong's profits and salaries tax rate down the road, despite keeping the tax rate unchanged this year, pointing to the need to consolidate economic recovery and policy direction of attracting talents and enterprises.

Key Economic News

Facts	OCBC Opinions
▪ China's utilized foreign direct investment rose 10% yoy in January to US%19.02 billion.	▪ Utilized FDI in manufacturing sector rose by 40.4% yoy. Foreign investment in high tech service and high tech manufacturing sectors rose by 59.6% yoy and 74.5% yoy respectively.
▪ Hong Kong's inflation picked up in January, though still remained moderate. Year-on-year increase in headline composite CPI widened to 2.4% in January, partly due to the early arrival of Chinese New Year. Price pressures stemming from food, utilities, and clothing and footwear stayed elevated.	▪ Analyze by components, the year-on-year increase in food cost (+6.0% YoY), utilities (+20.6% YoY), and clothing and footwear (+5.8% YoY) remained high, while price pressure for other commodities and services were largely modest. Meanwhile, the stagnant rent continued to limit the upside room for inflation in Hong Kong. ▪ We are of the view that inflation may climb further in the face of rebound in domestic consumption and increased demand from tourists. The government pitched the headline inflation at 2.9% this year.
▪ Hong Kong's residential property price ended the seven straight months of decline in January, rebounding from the five-year low. On month-to-	▪ Analyze by flat size, both 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

month basis, property price turned to an increase of 0.6% (-1.3% month-on-month in December 2022). Rental index, however, fell further by 0.6% (-0.5% month-on-month in December 2022) in January.	of 100 square meter or above) rebounded by 0.6% month-on-month in January, from that of -1.3% and -0.3% in January respectively. As for rental index, the month-on-month decline widened to 0.6% in January, with that of mass-market and medium-sized properties (-0.6% month-on-month) underperforming the large-sized properties (-0.2% month-on-month). ▪ Several positive catalysts had emerged lately, namely the peaking Fed Fund rate, reopening with Mainland, more evidence for global economic soft landing and government's move to lower stamp duties for first-time home buyers, which help limit the downside risks of the property market this year. However, we remain to see if such momentum can be sustained, on the back of increased supply of private units and high interest rate environment. Added to that, we see the recent failed land sale tender (bidders falling short of government's price target) as a sign of caution towards the housing market in the near term.
▪ Macau: Mainland and Hong Kong's reopening had proved to be a boon for Macau's inbound tourism sector. Macau's total visitor arrivals jumped to 1.4 million in January, doubling the figure recorded in January 2022. During the seven-day Chinese New Year holiday, Macau welcomed an impressive total of 451,047 travellers, nearly four times the number of visitors recorded during the new year holiday last year. Nonetheless, comparing with the pre-pandemic level in 2019, the total arrival figure was still down by 59.2%.	▪ Gaming sector had also benefited tremendously from the reopening. In January, the gross gaming revenue soared by an impressive 82.5% YoY. The recovery of gaming sector gathered further momentum heading into February. In the third week of February (14-20 February), daily gross gaming revenue averaged at MOP400 million, representing the best non-holiday weekly performance since the start of pandemic.

RMB	
Facts	**OCBC Opinions**
▪ RMB extended its loss against the dollar in the wave of Fed repricing.	▪ The rapid widening yield differential between US and China put renewed pressure on Yuan. Foreign ownership of China's government bond fell further to 8.8% in January despite inflows into the equity market. The Fed repricing may delay the return of capital inflows to China's bond market.

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