OCBC GLOBAL MARKETS RESEARCH

Greater China – Week in Review

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Highlights: sunnier weather amid a poor climate

Tommy Xie
Xied@ocbc.com

Cindy Keung
cindykeung@ocbc.com

China's President Xi concluded his trip to the US. The ultimate success of this meeting remains open to interpretation, particularly in light of President Biden's intriguing remarks. The pre-APEC observation by Singapore's Foreign Minister Vivian Balakrishnan, referring to a 'sunnier weather amid a poor climate' for US-China relations, aptly captures the nuanced shifts in the geopolitical landscape.

While the precise impact of this diplomatic engagement is subject to various readings, any indication of improved relations is undoubtedly a positive development. China's concerted efforts to normalize bilateral ties with the US are particularly noteworthy. This shift is evident when compared to the Bali meeting in November 2022, which was predominantly focused on foreign affairs. The recent visit saw an expanded Chinese delegation, including heads of key economic decision-making bodies such as the National Development and Reform Commission, the Ministry of Commerce, and the Ministry of Finance, alongside Vice Premier He Lifeng and People's Bank of China Governor Pan Gongsheng pre-APEC meeting. This broad representation underscores the comprehensive nature of the discussions, extending beyond diplomatic courtesies to substantive economic and policy dialogues.

The essence of the recent evolution in China-US relations lies in identifying and capitalizing on areas of potential cooperation, as well as jointly managing risks, thereby aiming to mitigate prevailing uncertainties.

Given these developments, it is anticipated that China may reassess the equilibrium between national security and economic growth. In the upcoming Central Economic Working Conference scheduled for December, there is an expectation that China might adopt a more proactive stance towards development and growth. This could signify a renewed emphasis on economic expansion and international collaboration, reflecting a strategic adaptation to the current global and bilateral contexts.

In its November rollover, China's central bank injected a record CNY1.45 trillion into the banking system via the medium term lending facility (MLF). This infusion resulted in a net liquidity injection of CNY600 billion, a level not seen since 2017.

The scale of this injection suggests a recalibration of immediate policy expectations, particularly regarding the likelihood of a short-term adjustment in the Reserve Requirement Ratio (RRR). As a result of reduced bet on RRR cut, China's interbank funding costs increased slightly with 7-day reverse repo rate rebounded to 2% and 1-year NCD yield remained elevated above the 1-year MLF rate. In addition, China's treasury yields also rose slightly last week.

China's growth data remained resilient in October. However, there is no sign of recovery in the property market. 56 of 70 cities registered a decline in the prices of new homes. More strikingly, the market for second-hand homes exhibited even more widespread depreciation, with 67 cities experiencing a drop in prices. This figure represents an increment of two cities in comparison to the previous month's data. Notably, the number of cities witnessing a reduction in second-hand home prices has escalated to an unprecedented level.

The conference over the weekend attended by main financial regulators called for equal treatment and reasonable financing access for all real estate enterprises, indicating a more pronounced commitment that could lead to improved financing conditions for private real estate firms.

Although these improving financing conditions might keep default risks in check, they are not yet sufficient to reverse market sentiment, as pervasive concerns about a downward spiral in property prices deter potential buyers. Looking ahead to 2024, it is expected that China will implement additional measures to stabilize the housing market. A potential strategy could involve the central government spearheading the establishment of a dedicated housing security fund.

Due to a sharp decline in the value of the US dollar, RMB experienced a notable rebound last week. It is noteworthy that this particular rebound took place amidst an improvement in offshore CNH liquidity. This development indicates that the market appears to have adopted a more rational approach towards the narrative surrounding RMB, moving away from a singular focus on the Sino-US interest rate differential. Notably, the central parity rate of RMB has consistently maintained its position within the range of 7.17-7.18, effectively serving as a stabilizing force for the currency.

While the unemployment rate in Hong Kong still stayed low, it edged up by 0.1 percentage point to 2.9% in Aug-Oct 2023. In particular, unemployment rate in the manufacturing and trade sectors rose by 0.4 and 0.3 percentage point to 4.5% and 3.1% respectively, the highest level since late 2022. Upon the entry of imported labour later this year, we should see further increase in labour force and easing of the labour market. That said, we expect the labour market to stay strong throughout 2023.

Macau's real GDP jumped by 116.1% YoY in the third quarter, led by sharp rebound in the tourism and gaming sectors. In the first three quarters, Macau's GDP grew by 77.7% YoY, recovering to around 77.4% of the pre-pandemic level in the same period of 2019.

During the third quarter, the growth was mostly led by external demand which leapt by 169.0% YoY, while domestic demand rose by 15.7% YoY. Specifically, exports of services recorded an impressive year-on-year increase of 284.1%, as exports of gaming services and tourism services skyrocketed by 781.4% YoY and 255.4% YoY respectively.

However, due to the downward revision of earlier figures by the authority (rates of change for the first half of 2023 were revised to 62.3% from 71.5%), we have revised downward our full year to 79%, from that of 89% earlier.

Macau's economy is likely to return to the pre-Covid level in 2024, given the current trajectory. According to the government forecast, Macau's gross gaming revenue will reach MOP216 billion next year. Aside from gaming sector, further recovery in inbound tourism sector should continue to underpin growth (increase in visitor arrivals more than offsetting the decline in per capita spending). Nonetheless, the full year growth is likely to come down, given the less favourable base effect. All in all, we pitch the growth rate of Macau at 16%.

Key Events and Market Talk	
Facts	**OCBC Opinions**
▪ China's President Xi concluded his trip to the US.	▪ While the precise impact of this diplomatic engagement is subject to various readings, any indication of improved relations is undoubtedly a positive development. China's concerted efforts to normalize bilateral ties with the US are particularly noteworthy. This shift is evident when compared to the Bali meeting in November 2022, which was predominantly focused on foreign affairs. The recent visit saw an expanded Chinese delegation, including heads of key economic decision-making bodies such as the National Development and Reform Commission, the Ministry of Commerce, and the Ministry of Finance, alongside Vice Premier He Lifeng and People's Bank of China Governor Pan Gongsheng pre-APEC meeting. This broad representation underscores the comprehensive nature of the discussions, extending beyond diplomatic courtesies to substantive economic and policy dialogues. ▪ The essence of the recent evolution in China-US relations lies in identifying and capitalizing on areas of potential cooperation, as well as jointly managing risks, thereby aiming to mitigate prevailing uncertainties. ▪ Given these developments, it is anticipated that China may reassess the equilibrium between national security and economic growth. In the upcoming Central Economic Working Conference scheduled for December, there is an expectation that China might adopt a more proactive stance towards development and growth. This could signify a renewed emphasis on economic expansion and international collaboration, reflecting a strategic adaptation to the current global and bilateral contexts.
▪ In its November rollover, China's central bank injected a record CNY1.45 trillion into the banking system via the medium term lending facility (MLF). This infusion resulted in a net liquidity injection of CNY600 billion, a level not seen since 2017.	▪ The scale of this injection suggests a recalibration of immediate policy expectations, particularly regarding the likelihood of a short-term adjustment in the Reserve Requirement Ratio (RRR). As a result of reduced bet on RRR cut, China's interbank funding costs increased slightly with 7-day reverse repo rate rebounded to 2% and 1-year NCD yield remained elevated above the 1-year MLF rate. In addition, China's treasury yields also rose slightly last week.

Key Economic News	
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▪ 56 of 70 cities registered a decline in the prices of new homes. More strikingly, the market for second-hand homes exhibited even more widespread depreciation, with 67 cities experiencing a drop in prices. This figure represents an increment of two cities in comparison to the previous month's data. Notably, the number of cities witnessing a reduction in second-hand home prices has escalated to an unprecedented level.	▪ The conference over the weekend attended by main financial regulators called for equal treatment and reasonable financing access for all real estate enterprises, indicating a more pronounced commitment that could lead to improved financing conditions for private real estate firms. ▪ Although these improving financing conditions might keep default risks in check, they are not yet sufficient to reverse market sentiment, as pervasive concerns about a downward spiral in property prices deter potential buyers. Looking ahead to 2024, it is expected that China will implement additional measures to stabilize the housing market. A potential strategy

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▪ Hong Kong: While the unemployment rate in Hong Kong still stayed low, it edged up by 0.1 percentage point to 2.9% in Aug-Oct 2023. In particular, unemployment rate in the manufacturing and trade sectors rose by 0.4 and 0.3 percentage point to 4.5% and 3.1% respectively, the highest level since late 2022. In parallel, underemployment rate stayed flat at 1.0%.	▪ Hong Kong's labour market eased somewhat in Aug-Oct 2023, probably due to weakening demand. During the period, unemployed persons rose by 1.8k as compared to Jul-Sep 2023, while the labour force contracted by 5.1k. ▪ Performance among sectors were mixed, with more notable increase observed in the unemployment rate of manufacturing sector (+0.4 percentage point) and trade sector (+0.3 percentage point), while other industries saw decline in the unemployment rate (-0.2 percentage point). ▪ Upon the entry of imported labour later this year, we should see further increase in labour force and easing of the labour market. That said, we expect the labour market to stay strong throughout 2023.
▪ Macau's real GDP jumped by 116.1% YoY in the third quarter, led by sharp rebound in the tourism and gaming sectors. In the first three quarters, Macau's GDP grew by 77.7% YoY, recovering to around 77.4% of the pre-pandemic level in the same period of 2019.	▪ During the third quarter, the growth was mostly led by external demand which leapt by 169.0% YoY, while domestic demand rose by 15.7% YoY. Specifically, exports of services recorded an impressive year-on-year increase of 284.1%, as exports of gaming services and tourism services skyrocketed by 781.4% YoY and 255.4% YoY respectively. ▪ Year-on-year growth of private consumption expenditure paced up to 29.6% (12.2% YoY in 2Q), on the back of improved economic momentum and tight labour market. Gross fixed capital formation also surged by 45.5% (30.0% YoY in 2Q), due to solid increase in construction (+43.9% YoY) and equipment investment (+50.4% YoY). Meanwhile, public consumption expenditure fell for the first time since the third quarter last year, by 23.6%, amid the conclusion of some relief measures. ▪ However, due to the downward revision of earlier figures by the authority (rates of change for the first half of 2023 were revised to 62.3% from 71.5%), we have revised downward our full year to 79%, from that of 89% earlier. ▪ Macau's economy is likely to return to the pre-Covid level in 2024, given the current trajectory. According to the government forecast, Macau's gross gaming revenue will reach MOP216 billion next year. Aside from gaming sector, further recovery in inbound tourism sector should continue to underpin growth (increase in visitor arrivals more than offsetting the decline in per capita spending). Nonetheless, the full year growth is likely to come down, given the less favourable base effect. All in all, we pitch the growth rate of Macau at 16%.

Global Markets Research & Strategy

OCBC Greater China Research

Tommy Xie

Cindy Keung
cindykeung@ocbc.com

Herbert Wong
herberthtwong@ocbc.com

Co.Reg.no.:193200032W