OCBC TREASURY RESEARCH

Greater China – Week in Review

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Highlights

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While the world was anxiously waiting for the outcome of US Presidential election last week, RMB has been one of the best barometers to gauge the market expectations on the election result. The USDCNY hit an intraday volatility of 2% on election night with the pair touched a high of 6.774 when President Trump was tipped to take key battleground Florida but ended the week below 6.60 after evidence showing that Biden is on track to win.

The high correlation between RMB movement and Biden's winning odds showed that market believes that the high intensity attacks at China launched by Trump Administration may be left behind though the long term rivalry between the world's two largest economy is likely to sustain.

We think RMB has priced in the pause of the escalation of US-China trade war. The near-term outlook of the currency may depend on the global risk sentiment as well as broad dollar trajectory. Nevertheless, a deeply divided US as shown by the election this year is not really a good thing for China as the risk to find a common enemy to unite the divided nation is getting higher, which may shift Biden Administration's foreign policy over the next four years.

One of the most asked questions in ASEAN in the past weeks is that whether China's dual circulation strategy means China will become more inward looking. Although China's President Xi does promote import substitution recently in particular for some strategic important industries, he reassured all China watchers last week that inward looking is not in China's playbook.

President Xi projected that China will import about US$22 trillion goods in the next decade as well as further supporting service trade via introducing a negative list for cross border services trade and further open its digital economy and internet.

China's October export continued to surprise on the upside partially driven by frontloading activities to the US ahead of the US election. Although China's October import growth was slightly shy of consensus, imports of iron ore in absolute term hit a record high, a sign that China's infrastructure investment have picked up. Given the resurgence of virus globally and part of western European countries have reentered the lockdown, demand for Chinese goods may remain strong. However, the Biden victory may change the dynamics of frontloading activities, which may cap China's exports growth to the US.

In **Hong Kong,** right before the US election, the unexpected suspension of Ant Group's IPO caught market's attention. That said, HKD market did not react much to the news. Rather, as the large amount of money (HK$1.3 trillion) locked-up for the mega IPO returned to the market gradually, HKD liquidity became increasingly flushed with HKD spot and forward as well as HIBOR taking another leg lower. Going forward, in the absence of liquidity draining events, we expect HKD spot to continue staying away from the strong-end and HIBOR to subside further. In particular, 1M HIBOR may break below 0.2%.

On the economic front, we continued to see signs of recovery. First, PMI for the private sector rose to 49.8 in October, the highest since March 2018. Second, the decline of retail sales narrowed to -12.9% yoy in September, the strongest since July 2019. Third, housing price index rose for the first time in seven months by 0.3%

yoy in September. Taken all together, it indicates that the economy has been regaining traction thanks to the receded local pandemic, the eased containment measures and China's solid economic recovery.

However, for October's PMI, employment fell again after a mild increase in the previous month. Besides, retail sales missed market expectation while housing transaction volume retreated in October. In the near term, as the unemployment rate may increase especially after the Employment Support Scheme ends in November, the weakening labor market together with the near-standstill inbound tourism may remain a drag on the rebounding economy.

In **Macau,** gaming revenue more than tripled to MOP7.27 billion in October as compared to the prior month, owing to the full resumption of Mainland China's visa approvals to Macau. That said, given the slow recovery of inbound tourism, we expect gaming revenue (-72.5% yoy in October) may only recover to about 50% of the pre-virus level by end of this year.

Key Events and Market Talk	
Facts	**OCBC Opinions**
▪ China's President Xi announced a fresh round of opening-up measures during his opening speech for the 3rd China International Import Expo.	▪ China will introduce a negative list for cross border services trade and further open its digital economy and internet. Meanwhile, China will also shorten the list of technology prohibited from import while strengthening intellectual property rights. China is also ready to sign more free trade agreements. President Xi also projected that China will import about US$22 trillion goods in the next decade.
▪ Hong Kong: Ant Group's IPO was suspended unexpectedly.	▪ However, it did not cause any sudden capital outflows as both HKD spot and rates remained relatively stable after the suspension news. Rather, as the large amount of money (HK$1.3 trillion) locked-up for the mega IPO returned to the market gradually during 4th November to 6th November, HKD liquidity became increasingly flushed. USDHKD forward swap points for tenors from overnight to 3M all dropped to discount levels. Meanwhile, HIBOR fixing came off further with 1M HIBOR and 3M HIBOR down to 0.21% and 0.42% respectively, both reaching the lowest since 2016. Due to the abated mega IPO effect and the narrowing HKD-USD yield differential, USDHKD spot edged up to around 7.7550. ▪ Going forward, in the absence of liquidity draining events, we expect HKD spot to continue staying away from the strong end and HIBOR to subside further. In particular, 1M HIBOR may break below 0.2%. Meanwhile, 3M HIBOR may drop below 0.4% as the gap between 3M HIBOR and 1M HIBOR, which hovered in the range of 5bps to 20bps during the previous low-rate era, looks set to narrow from the current 21.4bps. That said, we still believe that the downside of both HKD spot and HIBOR could be capped by a slew of factors including year-end effect, busy IPO pipeline, improving investment sentiment (if we see Biden victory) and HKMA's issuance of additional EFBNs (this may happen when we see a clear downtrend of HKD exchange rate and interest rates).

Key Economic News	
Facts	**OCBC Opinions**
▪ China's export rose by 11.4% yoy in dollar term in October while import rose by less than expected 4.7% yoy. ▪ China's trade surplus widened again to US$58.4 billion.	▪ The strong double-digit export growth was mainly attributable to strong exports to the US, which grew by more than 20% yoy. The frontloading activity is likely to remain one of the key drives to support China's export growth. ▪ The weaker than expected import was mainly due to the widening decline of imports of oil as a result of covid-19 and falling oil prices. Imports of iron ore, however, remained strong with the absolute amount in October hit a record high, a sign that China's infrastructure investment may have accelerated. ▪ Given the resurgence of virus globally and part of western European countries have reentered the lockdown, demand for Chinese goods may remain strong. However, the Biden victory may change the dynamics of frontloading activities, which may cap China's exports growth to the US.

▪ China's utilized foreign direct investment in the first three quarters rose by 2.5% yoy to US$103.26 billion	▪ Despite the rising trend of supply chain shift, the ongoing inflows of foreign direct investment is a confidence vote to China's first in first out recovery.
▪ Hong Kong's PMI for the private sector rose notably from 47.7 in September to 49.8 in October, the highest since March 2018.	▪ In particular, business activity and new sales fell at a slower pace as compared to the prior month. This is mainly attributed to the eased containment measures and China's solid economic recovery. However, employment fell again in October after a mild increase in the previous month amid layoffs. Taken all together, it indicates that the economy may improve further in 4Q should local pandemic remain contained. However, as the unemployment rate will likely increase especially after the Employment Support Scheme ends in November, the weakening labor market together with the near-standstill inbound tourism may remain a drag on the rebounding economy.
▪ Hong Kong's retail sales dropped for the 20th consecutive month by 12.9% yoy in September.	▪ Though local pandemic showed signs of slowdown and the government eased the containment measures, retail sales still dropped more than expected. In particular, the sales of goods in supermarkets grew at a slower pace by 3.8% yoy while the sales of consumer durable goods retreated by 23.2% yoy. On the other hand, the sales of clothing, footwear and allied products (-19.9% yoy), jewelry, watches and clocks (-25.7% yoy) as well as medicines and cosmetics (-45.5% yoy) all continued to decrease. Taken all together, it indicates that the sluggish retail sales were mainly due to the still subdued local consumption and the near-standstill inbound tourism. ▪ Moving into the fourth quarter, due to the low base from same period last year, we expect the decline of retail sales to narrow further. However, the improvement of the retail sector still hinges on the development of local pandemic and the timing of border re-opening. Nevertheless, even if local pandemic remains well contained and the travel bubble with neighboring countries is established as scheduled, retail sector is unlikely to rebound strongly. First, unemployment rate may edge up in the coming months. Second, before effective vaccine is widely available, any recovery of inbound tourism may be slow. In conclusion, we hold onto our view that retail sales will drop more than 20% yoy in 2020.
▪ Hong Kong's housing price index rose for the first time in seven months by 0.3% yoy in September.	▪ This together with the strong response to a new home launch lately indicates strong pent-up demand. However, the upside of housing market looks limited. Housing transaction volume dropped by 1.5% mom to 4951 deals in October, led by the tiny and luxury flats. Also, due to the volatile price of luxury flats, CCL index which tracks secondary housing price dropped by 0.01% on weekly basis as of 25th October. ▪ Moving ahead, housing market may be volatile. On one hand, local rates may subside on flushed liquidity. This together with the pent-up demand from the higher income group who has been less affected by COVID-19 outbreak may continue to support the market. Also, long-term supply may remain insufficient (housing construction fell by 20% yoy in the first three quarters) and therefore prompt potential buyers to enter the market. On the other hand, investment sentiment remains fragile given a raft of uncertainties including US

	election and pandemic development. Meanwhile, the suppressed housing rental (dropped consecutively for a year by 9.2% yoy in September) may deter investment demand. Furthermore, as the employment support scheme will expire in November, homeowners with cash flow pressure may liquidate their flats at discounted price. In conclusion, housing price (0.9% YTD as of September) may be flat by end of this year as compared to the same period of 2019.
▪ Hong Kong's exchange fund posted an investment income of HK$52.8 billion in 3Q 2020, down 56.6% from the previous quarter.	▪ Bonds investments and overseas stock investments realized income of HK$8.5 billion and HK$29.9 billion respectively as stock market rallied further on continued global economic recovery while bond market was supported by a raft of uncertainties which made some investors cautious. Meanwhile, the exchange funds recorded foreign exchange income of HK$14.7 billion amid further depreciation of USD and HKD against major currencies given the risk-on sentiment. Elsewhere, local stock investments marked a mild loss of HK$0.3 billion. ▪ Moving into the last quarter, the outlook of financial market remains uncertain as it is fraught with uncertainties including the development of Covid-19 in Europe, the progress of vaccine development and the result of US election. As such, we expect the financial market to be rather volatile with neither stock market nor bond market likely to show any significant upside. In other words, the exchange fund may realize moderate investment return.
▪ Macau gaming revenue more than tripled to MOP7.27 billion in October as compared to the prior month, beating expectations.	▪ This was mainly attributed to the full resumption of Mainland China's visa approvals to Macau. However, on yearly basis, gaming revenue dropped notably by 72.5% yoy as visitor arrivals decreased over 80% during National Daily Holiday. ▪ Going forward, the outlook of the gaming sector remains subdued. On one hand, tourism sector's recovery has been slow amid the slow processing of Mainland China's visa approvals to Macau, cautiousness about cross-border travel and the limited availability of transport. Adding on the weak labor market outlook in Mainland China, the mass-market segment of the gaming center may remain sluggish. On the other hand, VIP segment may find it hard to regain traction as junket operators have been hit hard by the liquidity crunch resulted from subdued inbound tourism and China's crackdown on cross-border gambling. ▪ In conclusion, we expect gaming revenue may only recover to about 50% of the pre-virus level by end of this year. For 2020 as a whole, gaming revenue (-81.4% yoy during the first ten months) may fall around 80% yoy. Moving into 2021, gaming revenue may more than double amid low base but may not return to 2019's level yet. The government estimates that gaming revenue will only reach MOP130 billion, or 55.5% lower than the level of 2019.

RMB	
Facts	**OCBC Opinions**

▪ The USDCNY ended the week below 6.6 after dollar faced the selling pressure after Biden is expected to win the election.	▪ The high correlation between RMB movement and Biden's winning odds showed that market believes that the high intensity attacks at China launched by Trump Administration may be left behind though the long term rivalry between the world's two largest economy is likely to sustain. ▪ We think RMB has priced in the pause of the escalation of US-China trade war. The near-term outlook of the currency may depend on the global risk sentiment as well as broad dollar trajectory. Nevertheless, a deeply divided US as shown by the election this year is not really a good thing for China as the risk to find a common enemy to unite the divided nation is getting higher, which may shift Biden Administration's foreign policy over the next four years.

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