GLOBAL MARKETS RESEARCH

Greater China — Week in Review

4 November 2024

Highlights: better coordination between monetary and fiscal policies

Tommy Xie Dongming
Head of Asia Macro Research
xied@ocbc.com

Keung Ching (Cindy)
Greater China Economist
cindyckeung@ocbc.com

China's treasury yields closed the last week lower across the curve, supported by central bank liquidity measures. On October 31, the People's Bank of China (PBoC) conducted its new outright reverse repo tool, injecting CNY 500 billion in medium-term liquidity through a six-month operation. Additionally, the PBoC made net purchases of short-term treasury bonds totaling CNY 200 billion in October. For the month, the PBoC net injected over CNY 600 billion in medium-to long-term liquidity via this new mechanism after adjusting for CNY 89 billion net decline of Medium-Term Lending Facility (MLF).

Despite a net liquidity withdrawal of CNY 851.4 billion via 7-day reverse repos, month-end liquidity remained stable due to medium-term liquidity support measures. Consequently, both the 1-day and 7-day repo rates declined by 17 bps and 18.5 bps, respectively, last week, bolstering sentiment in the bond market.

In traditional collateralized reverse repo operations, primary dealers pledge bonds as collateral to the central bank in exchange for funding. While these bonds are temporarily frozen, ownership remains with the primary dealer. Conversely, in an outright reverse repo, primary dealers sell bonds to the central bank, transferring ownership directly to the central bank.

We see three implications from the introduction of the outright reverse repo. Firstly, with the inclusion of maturities like 3-month and 6-month terms under the outright reverse repo operation, the central bank seeks to improve its capacity to smooth liquidity conditions across various time frames within one year. This new tool enhances the precision of liquidity management and better addresses the concentrated MLF maturities in the fourth quarter, helping to ensure adequate liquidity through year-end. In the medium term, the tool may also be utilized to replace the MLF.

Secondly, the outright reverse repo operation enables the central bank to transition its medium-to-long-term liquidity framework from "RRR cuts + MLF" to a more dynamic model of "bond trading + outright reverse repo" **This shift aims to enhance coordination between monetary and fiscal policies.**

Thirdly, the outright reverse repo operates as a direct bond purchase, granting the central bank full ownership rather than holding bonds as collateral, as in traditional reverse repos. This ownership confers greater flexibility, enabling these bonds to be utilized within swap tools, improving upon the previous practice of using central bank bills in such operations. When combined with swap tools, outright reverse repos can temporarily support financial asset prices, positioning the central bank's innovative monetary policy tools to more effectively stabilize capital markets.

In terms of data, China's massive stimulus has begun to translate to an improving economic sentiment. China's official manufacturing PMI unexpectedly rebounded to 50.1 in October from 49.8 in September, marking its return to expansionary territory for the first time in six months and defying the usual seasonal decline in October. This uptick in manufacturing PMI can be attributed to two key factors: the extensive rollout of stimulus measures since late September, which bolstered market sentiment, and the fading impact of the September typhoon disruptions.

With raw material and output prices reaching their highest levels in the past five months, suggesting that October's PPI may show a slight positive MoM growth.

The non-manufacturing PMI also rose by 0.2 to 50.2, supported by the service sector, as the service PMI returned to expansionary territory at 50.1, driven by both the Golden Week holiday and a wealth effect from the recent equity market rally. However, construction PMI dipped further to 50.4 from 50.7. The recent policy initiatives to revamp 1 million urban villages and issue debt for idle land acquisition are expected to support the construction sector, though it may take time for these policies to fully translate into increased physical workload.

Overall, we are comfortable with our current projection that China's economic growth in the last quarter of 2024 will reaccelerate to above 5%.

For this week, all eyes will be on China's Standing Committee meeting of the National People's Congress for the exact figures of the fiscal stimulus in addition to the US Presidential election.

According to advance estimate, Hong Kong's GDP grew in the slowest pace in five quarters, by 1.8% YoY in the third quarter (2Q: 3.2% YoY; 1-3Q: 2.6%). On a seasonally adjusted basis, Hong Kong's real GDP declined by 1.1% QoQ (2Q: 0.3% QoQ). Growth momentum was weakening, on the back of weak goods export growth and further contraction in domestic consumption.

Exports of goods and gross fixed capital formation slowed to 3.9% YoY and 3.7% YoY respectively (2Q: 7.5% YoY and 4.1% YoY), reflecting the weaker external demand and higher base of comparison a year ago. Meanwhile, private consumption expenditure contracted further, by 1.4% YoY (2Q: -1.6% YoY), amid the weak consumption sentiment and still elevated interest rate environment. However, government expenditure and exports of services continued to grow, by 2.1% YoY and 2.4% YoY respectively (2Q: 2.2% YoY and 1.1% YoY).

Near-term economic outlook remained somewhat challenging, with more signs of softening in external demand. That said, recent stimulus measures unveiled by China and Fed rate cuts on the horizon should render some supports. We kept our full year growth forecast for 2024 unchanged at 2.4%.

The positive wealth effect created from the stock market rally in late September rendered some support to the overall consumption sentiment. Total retail sales in Hong Kong declined further, albeit at slower pace of 6.9% YoY in value terms (Aug: -10.0% YoY), despite the sharp decrease in visitor arrivals after the end of Summer holiday. In the first nine months this year, total retail sales fell cumulatively by 7.6% YoY in value terms.

Merchandise exports and imports slowed further in Hong Kong, rising by 4.7% YoY and 1.4% YoY respectively in September (6.4% YoY and 7.9% YoY respectively in August), partly due to the high base a year ago. In the first three quarters this year, total merchandise exports and imports increased by 10.7% YoY and 7.2% YoY respectively. Mirroring the slowdown in exports in Asian region (including mainland China), we expect Hong Kong's merchandise exports growth to lose further momentum going into late 2024 and early 2025.

The residential property price index fell by 1.7% MoM in September, to the lowest level since August 2016, meanwhile rental index rose for the seventh consecutive month, by 0.1% MoM. In the first nine months this year, the housing price index fell cumulatively by 7.5%, whereas the rental index increased by 5.4%.

Following the FOMC meeting, developers had paced up the launch of primary projects and these projects have generally been well received by market. Buying power have been directed to primary market, and hence housing prices in secondary market remained under pressure. Still, we expect to see some stabilisation in the housing market down the road, given the prime rate cut and easing of financial conditions.

Macau's gross gaming revenue grew 6.6% YoY to MOP20.79bn in October (+20.5% MoM), the highest tally in more than four years, as foot traffic in casinos rose during the Golden week. In the first ten months as a whole, the gross gaming revenue rose by 28.1% YoY. As the base normalized, growth in gross gaming revenue is likely to slow further in November and December, hence we have revised our full year forecast down from 27% to 24%.

Key Developments	
Facts	**OCBC Opinions**
▪ The PBoC announced on 28 Oct that it would conduct outright reverse repo with primary dealers up to one year.	▪ In traditional collateralized reverse repo operations, primary dealers pledge bonds as collateral to the central bank in exchange for funding. While these bonds are temporarily frozen, ownership remains with the primary dealer. Conversely, in an outright reverse repo, primary dealers sell bonds to the central bank, transferring ownership directly to the central bank. ▪ The bidding mechanisms differ notably between the two types of reverse repos. Traditional reverse repos employ a fixed-rate, quantity-based bidding approach, where the central bank sets a specific policy rate, serving both as a liquidity provision tool and a policy signal to the market. Outright reverse repos, however, use a fixed-quantity, rate-based bidding system with multiple bid levels, allowing market dynamics to determine the final rate. As such, outright reverse repos primarily function as liquidity provision tools, carrying limited policy signaling weight. ▪ We see three implications from the introduction of the outright reverse repo. ▪ Firstly, the recent introduction of outright reverse repo operations with maturities of up to one year enhances the central bank's liquidity management toolkit. This initiative aims to fill the gap in liquidity tools with intermediate maturities, spanning from 1 month to 1 year in addition to commonly used 7-day open market reverse repo operations and the 1-year MLF. ▪ With the introduction of outright reverse repos, expected to include maturities like 3-month and 6-month terms, the central bank seeks to improve its capacity to smooth liquidity conditions across various time frames within one year. This new tool enhances the precision of liquidity management and better addresses the concentrated MLF maturities in the fourth quarter, helping to ensure adequate liquidity through year-end. In the medium term, the tool may also be utilized to replace the MLF. ▪ Secondly, the outright reverse repo operation enables the central bank to transition its medium-to-long-term liquidity framework from "reserve cuts + MLF" to a more dynamic model of "bond trading + outright reverse repo" This shift aims to enhance coordination between monetary and fiscal policies. ▪ Thirdly, the outright reverse repo operates as a direct bond purchase, granting the central bank full ownership rather than holding bonds as collateral, as in traditional reverse repos. This ownership confers greater flexibility, enabling these bonds to be utilized within swap tools, improving upon the previous practice of using central bank bills in such operations. When combined with swap tools, outright reverse repos can temporarily support financial asset prices, positioning the central bank's innovative monetary policy tools to more effectively stabilize capital markets.
▪	▪

Key Economic News	
Facts	**OCBC Opinions**
▪ China's official manufacturing PMI unexpectedly rebounded to 50.1 in October from 49.8 in September, marking its return to expansionary territory for the first time in six months and defying the usual seasonal decline in October.	▪ This uptick in manufacturing PMI can be attributed to two key factors: the extensive rollout of stimulus measures since late September, which bolstered market sentiment, and the fading impact of the September typhoon disruptions. ▪ Both supply and demand subindices showed signs of improvement. The production index rose to 52 from 51.2, while new orders rebounded to 50 from 49.9, moving above 50 for the first time in six months, despite weaker external demand, as seen in the decline of new export orders from 47.5 to 47.3. This highlights the positive impact of recent stimulus on domestic demand, contrasting with softer external demand. Divergences across company sizes were also evident: PMI for large and medium-sized companies improved to 51.5 and 49.4, respectively, from 50.6 and 49.2, while PMI for small companies softened to 47.5 from 48.5, likely due to weaker external demand. ▪ In October, the finished goods inventory index fell to 46.9 from 48.4, while the raw materials inventory index rose to 48.2 from 47.7. Both price indices increased significantly, with raw material and output prices reaching their highest levels in the past five months, suggesting that October's PPI may show a slight positive MoM growth. ▪ The non-manufacturing PMI also rose by 0.2 to 50.2, supported by the service sector, as the service PMI returned to expansionary territory at 50.1, driven by both the Golden Week holiday and a wealth effect from the recent equity market rally. However, construction PMI dipped further to 50.4 from 50.7. The recent policy initiatives to revamp 1 million urban villages and issue debt for idle land acquisition are expected to support the construction sector, though it may take time for these policies to fully translate into increased physical workload.
▪ Hong Kong: According to advance estimate, Hong Kong's GDP grew in the slowest pace in five quarters, by 1.8% YoY in the third quarter (2Q: 3.2% YoY; 1-3Q: 2.6%). On a seasonally adjusted basis, Hong Kong's real GDP declined by 1.1% QoQ (2Q: 0.3% QoQ). Growth momentum was weakening, on the back of weak goods export growth and further contraction in domestic consumption.	▪ Exports of goods and gross fixed capital formation slowed to 3.9% YoY and 3.7% YoY respectively (2Q: 7.5% YoY and 4.1% YoY), reflecting the weaker external demand and higher base of comparison a year ago. Meanwhile, private consumption expenditure contracted further, by 1.4% YoY (2Q: -1.6% YoY), amid the weak consumption sentiment and still elevated interest rate environment. However, government expenditure and exports of services continued to grow, by 2.1% YoY and 2.4% YoY respectively (2Q: 2.2% YoY and 1.1% YoY). ▪ Near-term economic outlook remained somewhat challenging, with more signs of softening in external demand. That said, recent stimulus measures unveiled by China and Fed rate cuts on the horizon should render some supports. We kept our full year growth forecast for 2024 unchanged at 2.4%. Separately, the Financial Secretary said government's full year growth forecast remained intact at 2.5%-3.5%.
▪ Hong Kong: Merchandise exports and imports slowed further, rising by 4.7% YoY and 1.4% YoY respectively in September (6.4% YoY and 7.9% YoY respectively in	▪ Breaking down, with the exceptions of mainland China, Vietnam and Netherlands, Hong Kong's exports to major trading partners fell across board. In the third quarter, growth of merchandise exports came in at 7.9% YoY, down from that of 12.5% YoY in the

August), partly due to the high base a year ago. During the period, trade deficit surged to HK$53.2 billion, from that of HK$33.1 billion in August. ▪	previous quarter. ▪ In the first three quarters this year, total merchandise exports and imports increased by 10.7% YoY and 7.2% YoY respectively. Mirroring the slowdown in exports in Asian region (including mainland China), we expect Hong Kong's merchandise exports growth to lose further momentum going into late 2024 and early 2025.
▪ Hong Kong: The residential property price index fell by 1.7% MoM in September, to the lowest level since August 2016, meanwhile rental index rose for the seventh consecutive month, by 0.1% MoM. In the first nine months this year, the housing price index fell cumulatively by 7.5%, whereas the rental index increased by 5.4%.	▪ 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) fell by 1.7% MoM and 1.6% MoM respectively in September. As for rental index, mass-market and medium-sized properties was little changed, while large-sized properties rose by 0.3% MoM. ▪ Following the FOMC meeting, developers had paced up the launch of primary projects and these projects have generally been well received by market. Buying power have been directed to primary market, and hence housing prices in secondary market remained under pressure. Still, we expect to see some stabilisation in the housing market down the road, given the prime rate cut and easing of financial conditions.
▪ Hong Kong: The positive wealth effect created from the stock market rally in late September rendered some support to the overall consumption sentiment. Total retail sales in Hong Kong declined further, albeit at slower pace of 6.9% YoY in value terms (Aug: -10.0% YoY), despite the sharp decrease in visitor arrivals after the end of Summer holiday. In the first nine months this year, total retail sales fell cumulatively by 7.6% YoY in value terms.	▪ In sequential basis, total retail sales edged up by 1.2% MoM in value terms in September. During the month, "department stores" (-10.3% MoM) and "jewellery, watches and valuable gifts" (-9.3% MoM) posted the sharpest declines, while that of "consumer durable" (+31.1% MoM) recorded strong rebound, conceivably due to release and sales of new iphone. ▪ According to the 2024 Policy address, Hong Kong government would continue to support the retail and tourism industries, through organising more mega events and enabling more mainland tourists to visit. The government also proposed to cut tax levied on liquor with import price of HK$200 or above, from 100% to 10%, as part of plan to boost the "Night Economy". While the liquor tax cut and other tourism industry support measures could offer an one-off stimulus, they are unlikely to be the immediate game changer.
▪ HKD loan-to-deposit ratio edged further lower to 78.4% at end-September, the lowest since September 2017, as HKD deposit rose by 0.9% MoM while loans declined by 0.3% MoM.	▪ In September, total deposits with authorized institutions grew by 0.8% MoM. On the other hand, total loans and advances increased by 0.5% MoM. Year-to-date, total deposits rose by 5.8%, while loans and advances by 2.1%. ▪ For the third quarter of 2024 as a whole, loans for use in Hong Kong (including trade finance) decreased by 0.8% after increasing by 0.3% in the previous quarter. Analysed by economic use, loans to stockbrokers increased, on the back of sharp stock market rally in late September.
▪ Macau's gross gaming revenue grew 6.6% YoY to MOP20.79bn in October (+20.5% MoM), the highest tally in more than four years, as foot traffic in casinos rose during the Golden week. During the seven-day holiday, total visitor arrivals surged by 22.9% compared to the same period last year.	▪ In the first ten months as a whole, the gross gaming revenue rose by 28.1% YoY. As the base normalized, growth in gross gaming revenue is likely to slow further in November and December, hence we have revised our full year forecast down from 27% to 24%. ▪ In the first nine months, Macau recorded 25.9 million inbound visitors, returning to around 86% of the pre-pandemic level in 2019. Meanwhile, hotel occupancy rate averaged at 85.4%, below that of 90.8% in 2019. Earlier this year, eight more mainland cities were added to the cities where residents can apply for Individual

	Visit Scheme visas to travel Macau and Hong Kong. In the near term, inbound tourism sector in Macau is likely to grow in a moderated, yet still solid pace.

Macro Research

Selena Ling
Head of Research & Strategy
lingssselena@ocbc.com

Tommy Xie Dongming
Head of Asia Macro Research
xied@ocbc.com

Keung Ching (Cindy)
Hong Kong & Macau Economist
cindyckeung@ocbc.com

Herbert Wong
Hong Kong & Taiwan Economist
herberthtwong@ocbc.com

Lavanya Venkateswaran
Senior ASEAN Economist
lavanyavenkateswaran@ocbc.com

Ahmad A Enver
ASEAN Economist
ahmad.enver@ocbc.com

Jonathan Ng
ASEAN Economist
jonathanng4@ocbc.com

Ong Shu Yi
ESG Analyst
shuyiong1@ocbc.com

FX/Rates Strategy

Frances Cheung, CFA
Head of FX & Rates Strategy
franceschéung@ocbc.com

Christopher Wong
FX Strategist
christopherwong@ocbc.com

Credit Research

Andrew Wong
Head of Credit Research
wongvkam@ocbc.com

Ezien Hoo, CFA
Credit Research Analyst
ezienhoo@ocbc.com

Wong Hong Wei, CFA
Credit Research Analyst
wonghongwei@ocbc.com

Chin Meng Tee, CFA
Credit Research Analyst
mengteechin@ocbc.com