# Greater China — Week in Review

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## Highlights: Sentiment on upswing

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China returns to the spotlight today after the Golden Week holiday. While there is still no clear evidence that the Chinese economy has exited its downward spiral, market sentiment is clearly on an upswing, particularly after both the Hang Seng Tech Index in Hong Kong and the Golden Dragon Index in the U.S. surged over 10% in the first week of October.

During the final day of the Golden Week holiday, more than 360 webinars were held by sell-side analysts—a nearly 80% increase compared to the same period last year. This surge indicates heightened market interest in the post-holiday trajectory of A-shares and related hot topics.

On Monday, the last day of the National Day holidays, cross-regional passenger trips exceeded 278.76 million, a 5.2% increase from the same period in 2023, according to data from the Ministry of Transport. More significantly, this represented a 24.8% growth compared to the same period in 2019, before the COVID-19 pandemic, signaling strong mobility. However, air ticket prices dropped more than 20% year-on-year, suggesting that the increase in travel volume may not be sufficient to offset the impact of declining prices on retail sales in the short term.

Markets are now focused on this morning's press conference by the National Development and Reform Commission (NDRC), where the initial package of fiscal stimulus is expected to be unveiled.

One of the near-term risks for China is the resurgence of U.S. exceptionalism, following stronger-than-expected non-farm payroll data. This development reduces the room for Asian central banks to ease monetary policy, potentially pushing them below current market expectations.

The stimulus driven rally in Hong Kong equity market raged on. The Hang Seng Index rose to the highest level since March 2022. In the past 15 sessions, the index rose cumulatively by 32.9%, rendering it the best performing benchmark index worldwide so far this year. Transaction volume reached the record high of HKD505bn on Monday last week, and in the absence of Southbound flows (2 Oct – 4 Oct), the volume averaged at HKD335bn.

Separately, Hong Kong Dollar liquidity stays at the tight side despite the passing of quarter-end and holidays, largely due to the strong demand for HKD assets and the upcoming silver bond issuance. Front-end HIBORs stayed elevated in the past week. Looking ahead, if inflows into HKD assets riding on China stimulus is sustained and if HKD loan demand recovers, then our medium-term view for HKD rates to underperform USD rates on a downtrend shall materialise earlier.

Hong Kong's retail sales stayed weak in August despite recording highest monthly tally of inbound visitors since July 2019. Total retail sales declined by 10.1% YoY and 11.8% YoY in value and volume terms respectively. In the first eight months this year, total retail sales fell cumulatively by 7.7% YoY in value terms. We expect retail sales to stay relatively weak in the reminder of the year, though the positive wealth effect created from the recent stock market rally should render some support to retail sector.

Hong Kong's total visitor arrivals reached 4.45 million in August, the highest monthly tally since July 2019. On the first day of Golden Week holiday, Hong Kong saw over 222k inbound mainland visitors, up by 24.6% YoY from that of 178k in 2023. Foot traffic in shopping malls and tourist attractions also picked up notably. Yet, the notable increase in inbound tourists has yet to translate to surge in tourist spending.

Hong Kong's PMI bounced back to the 50-threshold in September, after staying in the contractionary zone for four straight months. The largest boost came from increase in inventories sub-index, while other sub-indexes fell by moderated paces. That said, business sentiment deteriorated further amid concerns over economic outlook and weakening external demand.

Macau's gross gaming revenue grew 15.5% YoY to MOP17.25bn in September (-12.7% MoM), the lowest tally since November last year, partly due to lower foot traffic when typhoon hit in early September. In the first nine months as a whole, the gross gaming revenue rose by 31.1% YoY (vs. our full year forecast of 27%). Growth in gross gaming revenue is likely to slow further in the next couple of months, given the more heavy-handed crackdown on gaming related activities and the high base effect.

Macau recorded 174k inbound visitors last Thursday (third day of Golden Week holiday), setting a new daily record. Golden Week had traditionally been a period of high foot traffic for Macau's casinos. Last year, Macau drew over nearly one million visitors during the Golden Week cum Mid-Autumn Festival.

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| ▪ Hong Kong's retail sales stayed weak in August despite recording highest monthly tally of inbound visitors since July 2019. Total retail sales declined by 10.1% YoY and 11.8% YoY in value and volume terms respectively. In the first eight months this year, total retail sales fell cumulatively by 7.7% YoY in value terms. We expect retail sales to stay relatively weak in the reminder of the year, though the positive wealth effect created from the recent stock market rally should render some support to retail sector. | ▪ In sequential basis, total retail sales edged up by 0.2% MoM in value terms in August. During the month, "Clothing, footwear and allied products" (-16.0% MoM) posted the sharpest declines, while that of "Food, alcoholic drinks and tobacco" (18.2% MoM) and "Department stores" (10.6% MoM) recorded strong rebound after seeing declines in the previous month.<br>▪ Hong Kong's total visitor arrivals reached 4.45 million in August, the highest monthly tally since July 2019. On the first day of Golden Week holiday, Hong Kong saw over 222k inbound mainland visitors, up by 24.6% YoY from that of 178k in 2023. Foot traffic in shopping malls and tourist attractions also picked up notably. Yet, the notable increase in inbound tourists has yet to translate to surge in tourist spending. |
| ▪ Hong Kong's PMI bounced back to the 50-threshold in September, after staying in the contractionary zone for four straight months. The largest boost came from increase in inventories sub-index, while other sub-indexes fell by moderated paces. | ▪ During the month, both output and new orders sub-indexes inched up, albeit remained at contractionary zone. External demand weakened notably, with a renewed contractions in new business from mainland China. Firms' margins pressure eased, as output price inflation rose while inflationary pressures from input costs alleviated.<br>▪ That said, business sentiment deteriorated further amid concerns over economic outlook and weakening external demand. |
| ▪ Macau's gross gaming revenue grew 15.5% YoY to MOP17.25bn in September (-12.7% MoM), the lowest tally since November last year, partly due to lower foot traffic when typhoon hit in early September. | ▪ In the first nine months as a whole, the gross gaming revenue rose by 31.1% YoY (vs. our full year forecast of 27%). Growth in gross gaming revenue is likely to slow further in the next couple of months, given the more heavy-handed crackdown on gaming related activities and the high base effect.<br>▪ Macau recorded 174k inbound visitors last Thursday (third day of Golden Week holiday), setting a new daily record. Golden Week had traditionally been a period of high foot traffic for Macau's casinos. Last year, Macau drew over nearly one million visitors during the Golden Week cum Mid-Autumn Festival. We expect to see a sharp month-on-month increase in gross gaming revenue in October. |

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