

Greater China — Week in Review

22 July 2024

Highlights: roadmap to high quality development

China's 20th Central Committee of the Communist Party concluded its third plenum last Thursday. A press conference was hosted on 19 July, followed by the release of the "Decision of the CPC Central Committee on Further Deepening Reform and Advancing Chinese Modernization" on 21 July. According to the decision, this year's third plenum of the 20th Central Committee is positioned as a continuation of the 18th Central Committee's third plenum in 2013, which was considered an epoch-making event similar to the historic third plenum of the 11th Central Committee in 1978. As such, it may not be fair to compare the third plenum of the 20th Central Committee with the 18th, as the 20th outlined the overall goal of further comprehensive reform, supplementing the 18th.

The decision consists of 15 sections and 60 articles, divided into three main parts: 1) the significant importance and overall requirements of further deepening reform and advancing Chinese modernization, 2) comprehensive reforms led by economic system reform across various fields and aspects, and 3) strengthening Party leadership and deepening Party building system reform. These provisions underscore the commitment to advancing comprehensive reforms that align with the goals of Chinese-style modernization and address both current and long-term challenges. The detailed breakdown provides a roadmap for implementing reforms across various sectors, emphasizing the importance of innovation, inclusiveness, and sustainable development.

Reform and opening up topped the agenda. As mentioned by President Xi in his explanations about the "decision," China has made significant strides in catching up with the times through reform and opening up. Since the 18th National Congress of the Communist Party of China, the Party and the country have undergone historic transformations via reform and opening up. On the new journey in the new era, to create a new landscape for Chinese modernization, China will continue to rely on reform and opening up.

The reform tasks laid out in the decision cover a wide range of areas, from the economy and whole-process people's democracy to ecological conservation and national security.

Economic reform, in particular, was a main focus of further comprehensive reform. The third plenum stated that China will build a high-standard socialist market economy in all respects by 2035. All the reforms laid out will be targeted to be completed within five years.

Regarding the relationship between the government and the market, the decision advocates for concentrating state capital in key industries and areas crucial to national security and the economy, public services, emergency capabilities, public welfare sectors, and forward-looking strategic emerging industries.

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At the same time, the decision underscores the commitment to creating a favorable environment and providing more opportunities for the development of the non-public economy. This includes formulating a Law for the Promotion of the Private Economy, removing market entry barriers, promoting fair access to competitive infrastructure sectors for business entities, and improving long-term mechanisms for private enterprises to participate in major national projects. Furthermore, it supports capable private enterprises in leading significant national technological research tasks and further opening major national scientific research infrastructure to private enterprises. Overall, SOEs may play a bigger role in conventional industries, while POEs will play a significant role in sectors related to new productive forces.

The decision also increases its focus on fairness of the system. It aims to improve the mechanism where production factors such as labor, capital, land, knowledge, technology, management, and data are market-evaluated and compensated based on their contributions. Additionally, it encourages granting greater autonomy to scientific and technological personnel in the distribution of benefits from the commercialization of their achievements. The remuneration distribution mechanism will be more inclined towards the real economy, particularly technological innovation.

The decision draft outlines measures to enhance the macroeconomic governance system. It proposes improving the national strategic planning system and policy coordination mechanisms; advancing fiscal and tax system reforms, increasing local financial autonomy, expanding local tax sources, reasonably broadening the scope of local government special bonds, appropriately strengthening central government responsibilities, and increasing the proportion of central government fiscal expenditure.

Regarding integrated urban-rural development, the decision proposes establishing a system to promote new urbanization, implementing a system where residents register their household registration (hukou) in their place of residence to receive basic public services, and ensuring that eligible migrant agricultural populations enjoy equal rights to social insurance, housing security, and compulsory education for their children as local residents. This will help unlock the consumption potential of approximately 300 million non-registered permanent residents in cities.

China's central bank announced to cut its 7-day reverse repo rate and 1-year and 5-year loan prime rate (LPR) by 10bps on 22 July.

The 7-day reverse repo rate cut was in line with consensus, though the timing was a bit surprising. Renewed hope for more monetary policy support has heightened following the third plenum, which emphasized economic reform as a main focus of further comprehensive reforms. The third plenum also set a target to complete all these reforms within five years. This relatively short timeframe indicates that China needs to do more to grow the pie further in order to build a high-standard socialist market economy.

In term of LPR, after the third plenum, the PBoC announced last Friday that it will increase the elasticity of the foreign exchange. The higher tolerance for mild increases in RMB volatility creates room for further interest rate adjustments.

However, it remains to be seen whether the recent LPR rate cut marks the beginning of a fresh rate cut cycle or is simply a symbolic gesture of monetary policy reform. If it is the latter, the rate cut might be a one-off event in the near term.

The next key event to watch is RRR, with almost 1 trillion yuan in Medium-term Lending Facility (MLF) maturing in August and September, there is a window for the PBoC to replace some of this liquidity with more permanent injections via RRR cut.

China's demand for foreign currency remains strong in June. The key gauge of supply and demand for foreign currency, including both spot and derivative transactions, showed that banks net purchased \$52.5 billion in foreign currency. Additionally, the willingness to sell foreign currency fell to 58% in June from 61% in May, while the willingness to buy foreign currency rose to 72% from 69%. The increasing demand for foreign currency, which aligns with the increase in onshore dollar deposits, indicates mounting pressure for the RMB to weaken further.

In Hong Kong, Hang Seng Index fell to the lowest level since April as market is awaiting for more details from the third plenum meeting, remaining entrenched in the descending trendline. Meanwhile, Southbound Stock Connect flows have been on the low side these days but nevertheless continued.

Hong Kong's unemployment and underemployment rates stayed flat at 3.0% and 1.2% respectively in the three-month ending June 2024. Total labour force and employed person grew by 0.1% and 0.2% respectively compared with the preceding three-month period, hence keeping the job market on the tight side. However, it was noticed that private sector job vacancy fell notably period-to-period, suggesting that the labour market may have more room to ease down the road.

Key events	
Facts	OCBC Opinions
<ul style="list-style-type: none"> China's 20th Central Committee of the Communist Party concluded its third plenum last Thursday. A press conference was hosted on 19 July, followed by the release of the "Decision of the CPC Central Committee on Further Deepening Reform and Advancing Chinese Modernization" on 21 July. According to the decision, this year's third plenum of the 20th Central Committee is positioned as a continuation of the 18th Central Committee's third plenum in 2013, which was considered an epoch-making event similar to the historic third plenum of the 11th Central Committee in 1978. As such, it may not be fair to compare the third plenum of the 20th Central Committee with the 18th, as the 20th outlined the overall goal of further comprehensive reform, supplementing the 18th. 	<ul style="list-style-type: none"> The decision consists of 15 sections and 60 articles, divided into three main parts: the significant importance and overall requirements of further deepening reform and advancing Chinese modernization, comprehensive reforms led by economic system reform across various fields and aspects, and strengthening Party leadership and deepening Party building system reform. These provisions underscore the commitment to advancing comprehensive reforms that align with the goals of Chinese-style modernization and address both current and long-term challenges. The detailed breakdown provides a roadmap for implementing reforms across various sectors, emphasizing the importance of innovation, inclusiveness, and sustainable development. Reform and opening up topped the agenda. As mentioned by President Xi in his explanations about the "decision," China has made significant strides in catching up with the times through reform and opening up. Since the 18th National Congress of the Communist Party of China, the Party and the country have undergone historic transformations via reform and opening up. On the new journey in the new era, to create a new landscape for Chinese modernization, China will continue to rely on reform and opening up. The reform tasks laid out in the decision cover a wide range of areas, from the economy and whole-process people's democracy to ecological conservation and national security. Economic reform, in particular, was a main focus of further comprehensive reform. The third plenum stated that China will build a high-standard socialist market economy in all respects by 2035. All the reforms laid out will be targeted to be completed within five years. Regarding the relationship between the government and the market, the decision emphasizes the need to further clarify the functional roles of different types of state-owned enterprises (SOEs). It advocates for concentrating state capital in key industries and areas crucial to national security and the economy, public services, emergency capabilities, public welfare sectors, and forward-looking strategic emerging industries. At the same time, the decision underscores the commitment to creating a favorable environment and providing more opportunities for the development of the non-public economy. This includes formulating a Law for the Promotion of the Private Economy, removing market entry barriers, promoting fair access to competitive infrastructure sectors for business entities, and improving long-term mechanisms for private enterprises to participate in major national projects. Furthermore, it supports capable private enterprises in leading significant national technological research tasks and further opening major national scientific research infrastructure to private enterprises. Overall, SOEs may play a bigger role in conventional industries, while POEs will play a significant role in sectors related to new productive forces. Regarding the income distribution, the decision emphasizes increasing the share of household income in national income distribution and the proportion of labor compensation in primary distribution. It aims to improve the mechanism where production factors such as labor, capital, land, knowledge, technology, management, and data are market-evaluated and compensated

	<p>based on their contributions. Additionally, it encourages granting greater autonomy to scientific and technological personnel in the distribution of benefits from the commercialization of their achievements. The remuneration distribution mechanism will be more inclined towards the real economy, particularly technological innovation.</p> <ul style="list-style-type: none"> ▪ Regarding the improvement of the macroeconomic governance system, scientific macroeconomic regulation and effective government governance are intrinsic requirements for leveraging the advantages of the socialist market economy system. The decision draft outlines measures to enhance the macroeconomic governance system. It proposes improving the national strategic planning system and policy coordination mechanisms; advancing fiscal and tax system reforms, increasing local financial autonomy, expanding local tax sources, reasonably broadening the scope of local government special bonds, appropriately strengthening central government responsibilities, and increasing the proportion of central government fiscal expenditure. Additionally, it aims to refine the roles and governance of financial institutions, improve the capital market's functions in coordinating investment and financing, and enhance the financial regulatory system. ▪ Regarding integrated urban-rural development, the decision proposes establishing a system to promote new urbanization, implementing a system where residents register their household registration (hukou) in their place of residence to receive basic public services, and ensuring that eligible migrant agricultural populations enjoy equal rights to social insurance, housing security, and compulsory education for their children as local residents. The goal is to accelerate the urban integration of the migrant agricultural population. Furthermore, it aims to protect the legitimate land rights of farmers who move to cities, ensuring their rights to contracted land, the use of homestead land, and the distribution of collective income. It also explores the establishment of voluntary and compensated exit mechanisms for these land rights. This will help unlock the consumption potential of approximately 300 million non-registered permanent residents in cities.
<ul style="list-style-type: none"> ▪ China's central bank announced to cut its 7-day reverse repo rate and 1-year and 5-year loan prime rate (LPR) by 10bps on 22 July. 	<ul style="list-style-type: none"> ▪ The 7-day reverse repo rate cut was in line with consensus, though the timing was a bit surprising. Renewed hope for more monetary policy support has heightened following the third plenum, which emphasized economic reform as a main focus of further comprehensive reforms. The third plenum also set a target to complete all these reforms within five years. This relatively short timeframe indicates that China needs to do more to grow the pie further in order to build a high-standard socialist market economy. ▪ In term of LPR, after the third plenum, the PBoC announced last Friday that it will increase the elasticity of the foreign exchange. The higher tolerance for mild increases in RMB volatility creates room for further interest rate adjustments. However, it remains to be seen whether the recent LPR rate cut marks the beginning of a fresh rate cut cycle or is simply a symbolic gesture of monetary policy reform. If it is the latter, the rate cut might be a one-off event in the near term. ▪ To recall, PBoC Governor Pan Gongsheng hinted at a potential change in the monetary policy rate, moving away from the 1-year Medium Lending Facility (MLF), which has been China's key policy rate since 2019. The MLF has its own problems. As mentioned in the PBoC's monetary policy report, there is no obvious link between the

MLF rate and key short-term interest rates such as the 7-day Open Market Operation (OMO) rate. With the deemphasis of the MLF rate, the LPR rate may increasingly become a function of short-term rates.

- The next key event to watch is RRR. with almost 1 trillion yuan in Medium-term Lending Facility (MLF) maturing in August and September, there is a window for the PBoC to replace some of this liquidity with more permanent injections via RRR cut.

Key Economic News	
Facts	OCBC Opinions
<ul style="list-style-type: none"> Demand for foreign currency remains strong in June. Chinese banks net purchased 34.97 billion dollar worth foreign currency in June. 	<ul style="list-style-type: none"> The key gauge of supply and demand for foreign currency, including both spot and derivative transactions, showed that banks net purchased \$52.5 billion in foreign currency. Additionally, the willingness to sell foreign currency fell to 58% in June from 61% in May, while the willingness to buy foreign currency rose to 72% from 69%. The increasing demand for foreign currency, which aligns with the increase in onshore dollar deposits, indicates mounting pressure for the RMB to weaken further.
<ul style="list-style-type: none"> Hong Kong's unemployment and underemployment rates stayed flat at 3.0% and 1.2% respectively in the three-month ending June 2024. Total labour force and employed person grew by 0.1% and 0.2% respectively compared with the preceding three-month period, hence keeping the job market on the tight side. However, it was noticed that private sector job vacancy fell notably period-to-period, suggesting that the labour market may have more room to ease down the road. 	<ul style="list-style-type: none"> The unemployment rates of major sectors stayed generally low, though showing diverse movements during this period. Unemployment rate in "transportation, storage, postal and courier services, information and communications" sectors rose the most, by 0.2 percentage point, while that of "construction" and "import/export trade and wholesale" sectors fell by 0.2 percentage point.

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