Greater China — Week in Review

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Highlights: Buy short sell long

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China's property stocks surged last week following reports that the country may consider a new round of mortgage rate reductions for existing housing loans. Last year, China implemented its first round of mortgage rate cuts, benefiting more than CNY22trn in existing mortgage loans. According to the PBoC, this led to an average interest rate drop of 73 basis points, reducing annual interest expenses by approximately CNY160-170 bn.

Drawing from the experience in 2023, we believe the impact of these mortgage rate reductions will be more immediate this time. If the reductions apply to all existing CNY38trn in housing loans, the potential savings could amount to CNY200-230bn. This move may help unlock more consumer spending power.

China's manufacturing PMI softened further in August, declining to 49.1 from 49.4 in July, falling short of market expectations and dipping below last year's figure for the same period. In contrast, the non-manufacturing PMI showed improvement to 50.3 from 50.2.

In the manufacturing sector, both production and new orders slowed in August. Notably, the production index fell below the expansion-contraction threshold, ending a five-month streak in the expansion zone. Despite the decline in new orders, there is a positive sign on the demand side: new export orders in manufacturing continued to rise slowly, in line with the narrative about the support from external demand. Although the weak manufacturing PMI may have been influenced by adverse weather conditions, such as heavy rain and high temperatures, the weak domestic demand story may still call for more policy supports.

On August 26, the People's Bank of China (PBoC) conducted a CNY300bn 1-year Medium-Term Lending Facility (MLF) at an unchanged yield of 2.3%, resulting in a net withdrawal of CNY101bn in medium-term liquidity, as CNY401bn of MLF was due in August. With the MLF interest rate remaining significantly above the Negotiable Certificates of Deposit (NCD) yield, NCDs continue to be the primary medium-term liquidity channel for banks. Additionally, the PBoC net injected CNY204bn in short-term liquidity via reverse repos.

On August 30, the PBoC announced a strategic move to buy short-term government bonds and sell long-term government bonds from selected primary dealers in open market operations, culminating in a net purchase of bonds with a face value of 100bn yuan for the month.

These two central bank operations last week indicate a consistent underlying approach by the PBoC: managing long-term yields without compromising short-term growth support. The purchase of short-term bonds and the injection of short-term liquidity aim to create a favorable environment for high-quality economic development. Conversely, the sale of long-term bonds and the net withdrawal of medium-term liquidity are intended to prevent long-term bond yields from dropping too quickly, which could distort market expectations and pose systemic risks.

As the PBoC's operations in buying and selling government bonds reach practical implementation, last week's "buy short, sell long" strategy suggests a differentiated approach to managing the short and long ends of the yield curve. While short-term rates may continue to benefit from an easing bias, the direct sale of long-term bonds, coupled with the upcoming increased supply of treasury bonds, may establish a floor for long-term rates in the near term.

The USDCNY ended below 7.10 last week for the first time this year despite the rebound of dollar index. There is no clear catalyst behind RMB's break of key level. Market will continue to monitor the willingness of exporters to offload their hoarded foreign currency deposit. As we mentioned last week we believe China's reluctance to pursue RMB appreciation in August may buy exporters time to offload their dollar holdings without incurring significant currency losses.

Housing prices and rents in Hong Kong continued to move in opposite directions. The residential property price index fell at a faster pace of 1.9% MoM in July (-1.0% MoM in June), to the lowest level since September 2016, while rental index rose for the fifth consecutive month, by 1.1% MoM. In the first seven months this year, the housing price index fell cumulatively by 4.7% (our full-year estimate: -3% to -6%), whereas the rental index increased by 4.4%.

Rate cuts are generally positive catalysts for housing prices, except for the 2001 cycle where aftermath of 1997 Asian financial crisis and SARS still clouded the outlook. If past experience is of any guidance, in the upcoming rate cut cycle, housing market should see some stabilisation. Yet, more forceful rebound of prices will require help from banks to loosen their mortgage scrutiny, while the world economy continues on the soft-landing path.

Hong Kong's retail market continued to be grappled by weak consumption sentiment and more outbound travels by residents during the summer holidays. Total retail sales fell for the fifth consecutive month, by 11.8% YoY in July, (-13.3% YoY in volume terms), to the lowest tally since September 2022 at HK$29.1 billion.

Consumers are generally considered more price sensitive, with retailers reported that any increase in sales figure was due to vigorous promotions and discounts. In the first seven month this year, total retail sales fell cumulatively by 7.3% YoY. We expect retail sales to stay weak in the next couple of months, and record a high single-digit decline for the full year.

Hong Kong's merchandise exports and imports continued to grow, by 13.1% YoY and 9.9% YoY respectively in July (10.7% YoY and 9.0%YoY respectively in June). During the period, trade deficit fell sharply to HK$21.8 billion, from that of HK$55.7 billion in June.

Macau's gross gaming revenue grew 14.8% YoY and 6.2% MoM to MOP19.75bn in August. Wanning impact from Euro cup and other mega sports events, together with the solid summer holiday demand provided growth impetus for the gaming sector, despite recent crackdown on gaming related activities.

For the first eight months as a whole, gross gaming revenue rose by 33.4% YoY, close to our full-year estimate of 33%. Nonetheless, growth is likely to slow further in the second half this year, given the more heavy-handed crackdown on gaming related activities and the high base effect. Correspondingly, we revised our full-year growth forecast down to 27% YoY.

Key events	
Facts	**OCBC Opinions**
▪ On August 26, the People's Bank of China (PBoC) conducted a CNY300bn 1-year Medium-Term Lending Facility (MLF) at an unchanged yield of 2.3%, resulting in a net withdrawal of CNY101bn in medium-term liquidity, as CNY401bn of MLF was due in August. ▪ On August 30, the PBoC announced a strategic move to buy short-term government bonds and sell long-term government bonds from selected primary dealers in open market operations, culminating in a net purchase of bonds with a face value of 100bn yuan for the month.	▪ These two central bank operations last week indicate a consistent underlying approach by the PBoC: managing long-term yields without compromising short-term growth support. The purchase of short-term bonds and the injection of short-term liquidity aim to create a favorable environment for high-quality economic development. Conversely, the sale of long-term bonds and the net withdrawal of medium-term liquidity are intended to prevent long-term bond yields from dropping too quickly, which could distort market expectations and pose systemic risks. ▪ As the PBoC's operations in buying and selling government bonds reach practical implementation, last week's "buy short, sell long" strategy suggests a differentiated approach to managing the short and long ends of the yield curve. While short-term rates may continue to benefit from an easing bias, the direct sale of long-term bonds, coupled with the upcoming increased supply of treasury bonds, may establish a floor for long-term rates in the near term.
▪ China's property stocks surged last week following reports that the country may consider a new round of mortgage rate reductions for existing housing loans.	▪ Last year, China implemented its first round of mortgage rate cuts, benefiting more than CNY22trn in existing mortgage loans. According to the PBoC, this led to an average interest rate drop of 73 basis points, reducing annual interest expenses by approximately CNY160-170 bn. ▪ Drawing from the experience in 2023, we believe the impact of these mortgage rate reductions will be more immediate this time. If the reductions apply to all existing CNY38trn in housing loans, the potential savings could amount to CNY200-230bn. This move may help unlock consumer spending power.

Key Economic News	
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▪ Hong Kong's merchandise exports and imports continued to grow, by 13.1% YoY and 9.9% YoY respectively in July (10.7% YoY and 9.0%YoY respectively in June). During the period, trade deficit fell sharply to HK$21.8 billion, from that of HK$55.7	▪ Within the total, exports to mainland China rose faster by 23.0% YoY, while exports to US increased in a slower pace of 19.7% YoY. With the exceptions of Vietnam (+21.7% YoY) and the Netherland (+78.9% YoY), exports to other major trading partners mostly fell. ▪ In the first seven months this year, total merchandise exports and imports increased by 12.4% YoY and 8.0% YoY respectively. In the

billion in June.	remainder of 2024, growth of merchandise exports is likely to slow further, amid higher base last year, softening external demand and China's growing trade friction with the West.
▪ Macau's gross gaming revenue grew 14.8% YoY and 6.2% MoM to MOP19.75bn in August. Comparing with the same period in 2019, the gross gaming revenue in March was down by 24.5%.	▪ Wanning impact from Euro cup and other mega sports events, together with the solid summer holiday demand provided growth impetus for the gaming sector, despite recent crackdown on gaming related activities. For the first eight months as a whole, gross gaming revenue rose by 33.4% YoY, close to our full-year estimate of 33%. ▪ Growth is likely to slow further in the second half this year, given the more heavy-handed crackdown on gaming related activities and the high base effect. Correspondingly, we revised our full-year growth forecast down to 27% YoY.

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