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Outlook improves, but China remains in driver's seat

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Macau got off to a good start in January, with GGR in the initial weeks higher than expected, though few expect any return to the stellar growth rates of the past, with China still likely to be the driving factor for casino operators.

Beijing's crackdown on corruption triggered a two-year slump in gaming revenue and going forward the performance of its economy, efforts to control capital outflows and its ongoing fight against graft will all play a role in determining the strength of the local gaming market.

"The Macau gaming industry insofar as we are concerned is a political market rather than a free demand vs supply equation, and what we will get here is what China deigns to let us have," said Ben Lee, managing partner IGamiX Management & Consulting. "A single digit growth in line with China's own economic growth will probably be our guide."

GGR fell 3.3 percent in 2016 to MOP 223 billion, a much improved performance from the 34.3 percent decline the prior year. Revenue gained 8 percent in December and was tracking for a gain of 10 percent to 12 percent in January.

Most analysts now agree that a key focus for China this year will be stemming capital outflow, which, while not directly targeted at Macau, will have a knock on effect.

Ratings agency, Standard & Poor's said it expects the Chinese economy to grow about 6.5 percent this year, with no big policy changes expected. However, authorities will have to respond to pressure on capital outflows, which have been accelerating in the past few weeks and may continue to do so.

"Chinese policymakers have three unpleasant policy options to counter the outflow pressure, each of which comes at a cost: further depreciation, running down foreign-exchange reserves, or intensifying capital controls," said S&P Global Ratings economist Vincent Conti.

"Faced with imperfect policy choices, authorities appear to be doing a little bit of everything at the moment. As capital outflow pressures are likely to intensify in early 2017, the markets will be closely watching Chinese authorities' response."

Wells Fargo also expects China's economic outlook to play a key role and sees the economy becoming more volatile. It cites in particular, sustained depreciation in China's currency; potentially tighter credit conditions as liquidity decreases, working against the Q1 stimulus; tighter currency controls, and a cooling real estate market.

The most recent curb came on December 31, and will require a fuller disclosure of foreign currency transactions.

Macau's Legislative Assembly passed a bill that would require visitors to disclose cash holdings of more than MOP 120,000 (US\$15,000) at entry. Entrants with more than MOP 120,000 will need to declare and disclose the amount brought into the MSAR via a red declaration channel. The system is aimed to combat money-laundering activities.

New transaction limits were also set for the use of UnionPay cards, which hit gaming stocks, even though most analysts see little impact on GGR from the measure. Withdrawals were limited to HK\$5,000 (US\$645) per transaction but the daily withdrawal limit remained unchanged at RMB10,000. Morgan Stanley said in a note that the most likely effect is to be to push the market further towards the mass grind sector.

Meanwhile, government efforts to force Macau to diversify its economy to a more broad-based non-gaming model, driven by the mass market appear to be making progress, helped by the opening of new resorts with more amenities and slowly improving infrastructure.

"There are definitely more reasons to come to Macau now versus two years ago, and that is the key reason why overnight visitation is growing faster than total visitation," Nomura Holdings Inc. analyst

Richard Huang told Bloomberg. As more casinos open in Macau in the coming years, "we expect that to continue to drive growth in the mass gaming segment," he said.

Wynn Resorts opened its up-market Wynn Palace in August, while Las Vegas Sands' French-themed Parisian opened its doors in September. Both were seen as having a positive impact on visitation. In 2017, MGM Resorts is scheduled to open its HK\$24 billion Cotai project in the second half, adding a further 1,500 hotel rooms, as well as shopping and leisure facilities, while the ultra high-end The 13 is also scheduled to open in Q1.

Spectrum Gaming Group forecasts that VIP play in Macau will decline to less than 50 percent of GGR in 2017, the first time since Macau reverted back to China, with the mass market dominating.

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