Summary

China remains hot spot for headline although it is out for block leave. The fact that about 20 cities have joined the property tightening camp is not coincident, which reinforced our expectation that the decision was made by top-down approach. Between containing property bubble and rescuing the slowing economic growth, top leadership has made their choice, as such; we don't expect more easing measures for the rest of year. This may create pressure on Chinese banks which have increasingly rely on loan to household to offset the falling loan demand from corporate sector.

It seems that property frenzy in Mainland has spilled over to HK. It was reported that mainland investors have returned to HK property market contributing to the sharp rebound of residential property transaction volume in September, which hit a four-year high.

This morning's USDCNY fixing, first fixing in October, will be highly watched. Nevertheless, given the fixing mechanism was less affected by USDCNH (broke 6.7 last week), we expect the USDCNY fixing to be capped below 6.7 (around 6.6950) thanks to pause of dollar strength following the weaker than expected US September non-farm payroll data on Friday. China is going to start releasing October economic data from later this week.

Key Events and Market Talk	
Facts	**OCBC Opinions**
▪ More Chinese cities announced property tightening measures during the golden week holiday. Since late September, 20 cities have announced tightening measures.	▪ Shanghai became the latest city rolling out further measures. The fact that about 20 cities has joined the tightening camp is not coincidence, which reinforced our expectation (highlighted in last week's report) that the decision was made by top-down approach. This shows that consensus has been reached within top leadership. Between containing property bubble and rescuing the slowing economic growth, top leadership has made their choice, as such, we don't expect more easing measures for the rest of year. This may create pressure on Chinese banks which have increasingly rely on loan to household to offset the falling loan demand from corporate sector.
▪ Mainland investors returned to Hong Kong property market despite tight rules.	▪ It was reported that Mainland buyers accounted for around 20% of September's sales of a Kowloon new property project. As a result of rapid increase of housing prices in tier-1 and tier-2 cities, the HK property market seems to be attractive again. Moreover, the increasing demand for foreign assets by Mainland households and the needs to hedge against RMB risks also prompt them to re-enter HK's property market. We might see more mainland buyers returned to HK property market as the unintended consequence of property tightening measures in mainland cities.
▪ Moody's warned that recent brisk sales of Hong Kong property expose banking to higher risks.	▪ The number and value of new mortgage loans approved have gone up by 29.5% and 29.2% respectively on monthly basis in August. Meanwhile, new loans approved with their interest rates referring to HIBOR accounted for 93.4% in August, up further from 92.6% in the previous month. ▪ Moody's says that this will result in higher risks to the banking as the valuations should catch up with market trends whereas competition continues to weigh down loan pricing. Moreover, housing affordability is near historical-low. Also, a likely rate hike by Fed in December indicates that HIBOR will move up gradually, adding risks to the recent mortgage loans with reference to HIBOR. On a positive note, given that mortgage loans portfolios are full recourse and the average loan-to-value ratio is hovering below 55%, Moody's believe that the risks related to new mortgage loans have limited impact on

	banking performance.

Key Economic News

Facts	OCBC Opinions
▪ China's FX reserve fell to US$3.166 trillion in September, down from US$3.185 trillion in August.	▪ FX reserve denominated in SDR also fell from 2.284 trillion to 2.268 trillion in September, signalling mild capital outflows. Although RMB has been kept relatively stable against the dollar in September ahead of SDR inclusion, RMB's depreciation in late August may create pressure for capital outflows. ▪ Nevertheless, given still tight management of cross border flows by Chinese government, we think China's FX reserve may continue to drift lower at a managed pace.
▪ **HK:** Residential property transaction volume surged to 7,826 units in September, the highest since November 2012.	▪ On a yearly basis, residential property transactions increased significantly by 84%. By segment, transaction volumes for housing units priced over HKD 5 million were mainly responsible for the rebound, which surged from 2,915 units to 4,588 units, up 57% mom. Though Hong Kong's dimmer economic outlook amid weak inbound tourism continue to cloud the property market and dent investor's sentiment, the slower pace of a rate hike in the US left room for the property market to see a more gradual correction. Recently, banks competed to offer lower mortgage rate to attract clients, and the lowest rate reported has already decreased to Hibor+1.35%. Also, it seems likely that the property frenzy in Mainland will begin to spill over to HK. Adding on to the concern on RMB depreciation and asset shortage in Mainland, we believe HK property market could regain its traction in the near term while the decline of housing price will narrow to 3%-5% at the end of this year.
▪ **HK:** Total retail sales fell for the 18th straight month by 10.5% yoy in August, fastest in recent 6 months.	▪ Decline in the luxury segment continued to pose a severe drag on retail sales. Value of sales of jewellery and watches contracted for the 23rd straight month by 26.6% yoy in August, which was also the 12th consecutive double-digit contraction. Meanwhile, consumer durable goods dipped notably 23.9% yoy. In the near term, retail sector is likely to be constrained by still-weak inbound tourism activities, in turn weighing down employment in this sector. Gloomy prospect for retail sector will as a result translate into more downward pressure on retail shop property market, decline in rents and price of which enlarged to 3.9% yoy and 9.9% yoy respectively in July. More rental concession by the landlord and higher vacancy rate in core business district could also be expected.
▪ **Macau** gross gaming revenue (GGR) was up at its fastest pace since May 2014 by 7.4% yoy to MOP18.4 billion in September.	▪ A combination of base effect, two new hotel openings and Mid-Autumn Festival has translated into boosts to the gaming sector. These factors also outweighed the downward risk given that September had been the off-season for the gaming sector. The expected increase in leisure gamblers during Golden Week in October may lend more momentum to the gaming sector. However, the low bet amount by recreational gamblers means muted profitability of the mass market segment. On a positive note, the VIP zone of the mass market appears to attract some high rollers. This may become the new engine of the growth in GGR. But the small scale of the

	VIP zone means that any rebound in GGR will be moderate in the coming year. Besides, the visit of China PM Li Keqiang to Macau in mid-October will sideline the high-rollers and add downward pressure to VIP business. Elsewhere, the restriction on growth of gambling tables and the increase in casinos raise the margin pressure on each gaming center. All in all, we expect the accumulated GGR to drop by about 5% yoy for 2016 as a whole. Single-digit growth of GGR is expected for 2017.

RMB	
Facts	**OCBC Opinions**
▪ CNH was under renewed depreciation pressure during the golden week as a result of broad dollar rally. The USDCNH broke 6.7 and was traded between 6.7-6.72.	▪ This morning's USDCNY fixing, first fixing in October, will be highly watched. Nevertheless, given the fixing mechanism was less affected by CNH, we expect the USDCNY fixing to be capped below 6.7 thanks to pause of dollar strength following the weaker than expected US September non-farm payroll data.

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